

# VECTRUS

COWEN & COMPANY 37<sup>TH</sup> ANNUAL AEROSPACE/DEFENSE CONFERENCE

FEBRUARY 3, 2016





# 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 OUR SPIN-OFF FROM FORMER PARENT ("THE SEPARATION"), THE TERMS AND THE EFFECT OF THE SEPARATION AND RELATED MATTERS, FUTURE STRATEGIC PLANS AND OTHER STATEMENTS THAT DESCRIBE OUR 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 OUR MANAGEMENT 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 OUR 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 OR ANY OF OUR BUSINESSES AFTER GIVING EFFECT TO THE SPIN-OFF, AND OUR ABILITY 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 PROPOSALS FOR 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 AND TO RETAIN AND RENEW OUR EXISTING CONTRACTS; 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 (GAAP); AND OTHER FACTORS SET FORTH IN PART I, ITEM 1A, "RISKS FACTORS," AND ELSEWHERE IN OUR 2014 ANNUAL REPORT ON FORM 10-K AND DESCRIBED FROM TIME TO TIME IN OUR FUTURE REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC).

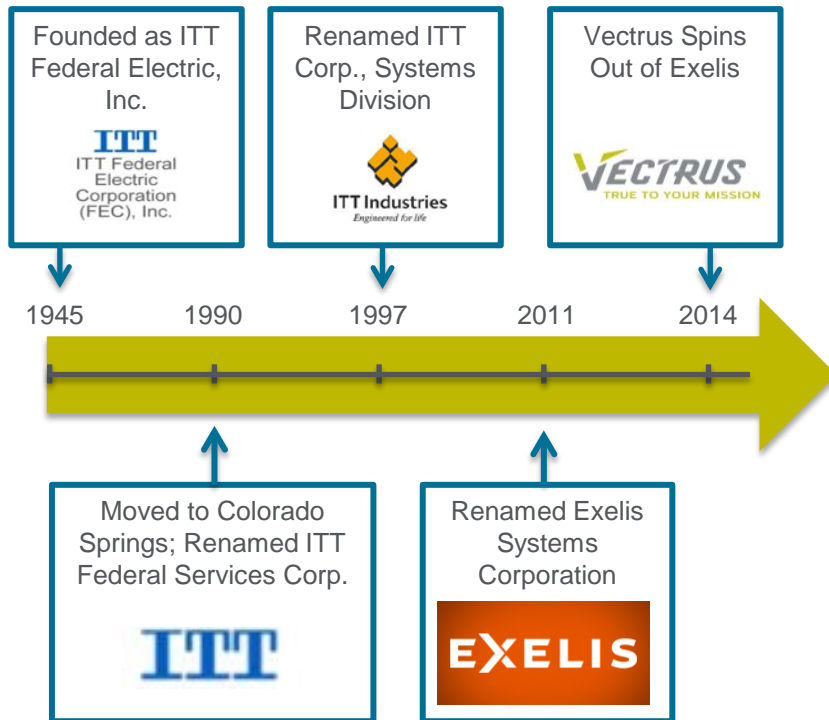
WE UNDERTAKE NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS REQUIRED BY LAW.



# VECTRUS HISTORY & OVERVIEW

## Our Legacy

Proven history of deploying resources rapidly and with precision to support the mission success of our customers



## Vectrus Today

- Leading provider of:
  - Infrastructure asset management
  - Information technology and network communication services
  - Logistics and supply chain management services
- Revenue \$1.175 2015E Mid-point<sup>(1)</sup>
- Deep, long-term customer relationships
- Robust backlog of \$2.4B<sup>(2)</sup> and healthy new business pipeline
- Global service solutions in 15 countries, with approximately 5,000 current global employees
- Headquartered in Colorado Springs, CO

(1) As of September 25, 2015.

(2) As of September 25, 2015. Total backlog represents firm orders and potential options on multi-year contracts, excluding potential orders under indefinite delivery / indefinite quantity (IDIQ) contracts.



# CORE CAPABILITIES

## Services

## Representative Contracts



### Infrastructure Asset Management

- Infrastructure sustainment services including base maintenance, public works, civil engineering and minor construction/renovations
- Base support including transportation, emergency services and life support services

- Kuwait Base Operations and Security Support Services
- Maxwell Air Force Base Operations Support
- Kaiserslautern Facilities Engineering



### Information Technology & Network Communication Services

- Lifecycle management of IT systems & components
- Network systems management, network defense, information assurance
- Military communications operations & maintenance

- Army Communications in Southwest Asia and Central Asia
- Navy Fleet Systems Engineering Team
- U.S. Army Corps of Engineers IT Support Services



### Logistics & Supply Chain Management Services

- Equipment maintenance and repair
- Warehouse management and distribution
- Ammunition and fuel – issue, maintenance and storage

- Army Pre-Positioned Stocks Kuwait and Qatar
- Fort Rucker Logistics Support Services
- Marine Corps Logistics Support Services

**Three Service Lines \* Large Contracts \* Challenging Environments**



# VECTRUS DIFFERENTIATORS

## Customer Focus – Deep understanding of customer needs

- Successful program execution
- Enables client mission success



**True to customers' missions**

## Performance Excellence – Vectrus performs on contracts

- Historically have received high award fees
- Current excellent assessment of performance by customers



**Customer satisfaction**

## Operational Excellence – Culture of continuous improvement

- All business systems approved by the Government
- Business disciplines, e.g. ISO, CMMI, Lean Six Sigma



**Consistent delivery of services**

## Honorable Values – Vectrus lives its values

- Integrity, respect, responsibility
- Strong governance and compliance



**Values and reputation enable success**

## Cost Leadership – Know how to win in a competitive environment

- Relentless focus on controlling indirect costs
- Deep customer and mission knowledge critical to delivering mission success at competitive cost



**Grow the top line**



# LONG-TERM STRATEGY

## Enhance Solid Foundation

### Continued Focus on the Competitiveness of our Core Business

- Continued excellent performance on existing contracts
- Manage costs
- Balance between performance and cost
- Extreme focus on re-competes

## Balance the Portfolio

### Expand the Diversity of Revenue Streams in Core Offerings through New Customers and Geographies

- Broaden customer base
- Expand geographic footprint
- Enterprise-wide focus on Business Development

## Provide More Value

### Enhance and Extend Offerings to Increase Value

- Add capabilities that allow us to deliver higher value-added and differentiated service solutions
- Evaluate and pursue acquisitions on a strategic basis
- Continue to manage internal costs

## Strengthen Base

## Grow Top Line

## Expand Margins



# Q3 2015 HIGHLIGHTS

- Completed first full year as a publicly-traded pure-play government services provider
- Core business revenue <sup>(1)</sup> increased 17%<sup>(1)</sup> compared to the prior year period
- \$500M+ Army Corps of Engineers Information Technology (ACE-IT) contract fully operational
- Solid third quarter results
  - Revenue of \$299.1 million
  - Operating margin of 2.8%, adjusted operating margin <sup>(1)</sup> of 3.9%
  - Diluted earnings per share (EPS) of \$1.29, adjusted EPS<sup>(1)</sup> of \$0.65
- Strong free cash flow enabled voluntary debt payment of \$3 million in Q3; \$9 million year-to-date
- Favorable settlements of uncertain tax positions

(1) See Appendix for definitions and reconciliation.



# 2015 GUIDANCE SUMMARY (AS OF Q3'15)

<i>\$ millions, except per share amounts</i>	2015 Guidance
Revenue	\$1,165 to \$1,185
Adjusted Operating Margin <sup>2</sup>	3.5% to 3.7%
Adjusted EPS, diluted <sup>3</sup>	\$2.10 to \$2.28
Free Cash Flow <sup>4</sup>	\$17 to \$19

2015 Mid-point
\$1,175
3.6%
\$ 2.19
\$ 18

2014 <sup>1</sup>	2015 Mid Variance to 2014	% Var
\$1,172	\$3	0.3%
4.30%	-70 bps	
\$2.80	(\$0.61)	-21.8%
\$39	(\$21)	-53.8%

- (1) All 2014 numbers exclude TARS program historical results and separation costs. See Appendix for reconciliation.
- (2) 2015 adjusted operating margin guidance excludes the pretax impact of year-to-date separation costs to become a standalone public company in the amount of \$177,000 and tax indemnifications of \$3.3 million.
- (3) 2015 adjusted diluted EPS guidance excludes the impact of 2015 separation costs, net of taxes, in the amount \$184,000 or \$0.02 per share, and the net impact of the settlement of uncertain tax positions of \$6.9 million, or \$0.64 per share. EPS is calculated using the estimated weighted average diluted common shares outstanding for the year ending December 31, 2015 of 10.8 million.
- (4) Free cash flow guidance is calculated as GAAP net cash (used in ) and provided by operating activities less estimated capital expenditures of \$1 million.





# VECTRUS IT & NETWORK FOCUS

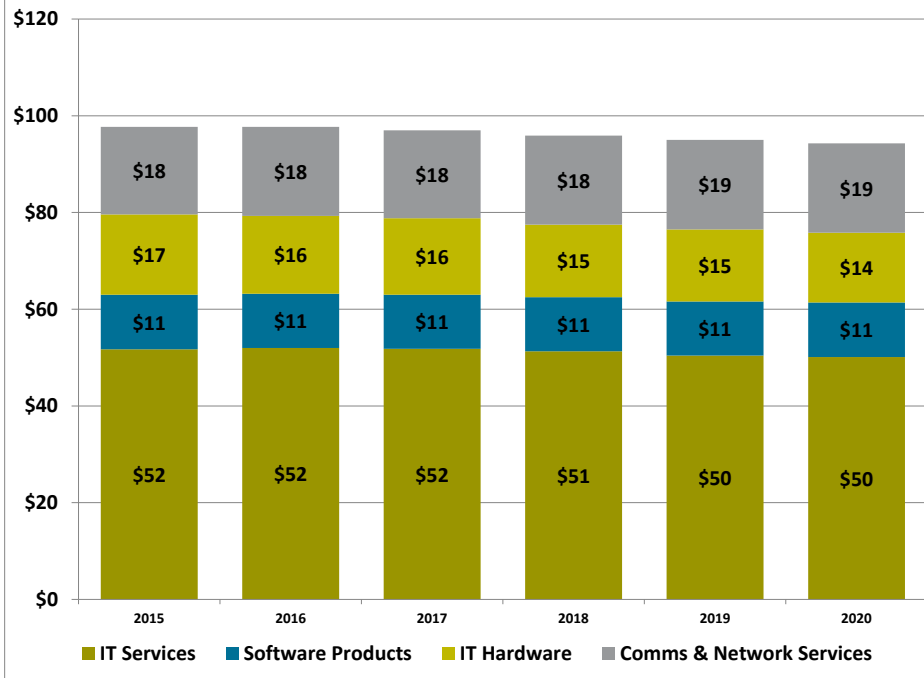
- Vectrus is investing to expand its IT & Network Communication market share
  - Vectrus is positioned to reinvest to achieve growth through market and capability expansion
  - Hired Chico Moline in October 2015, to lead the IT & Network Communication growth strategies
  - Opened a new IT and networks operations center in Reston, VA
  
- We see significant opportunity to grow our IT & Network Communication line of service over the coming years
  - Well positioned to win seats on multiple IT IDIQ vehicles opening up in the next few years
  - Leveraging our robust set of certifications and various capabilities
  - Expanding the IT & Network footprint aligns with the Vectrus long-term strategy of enhancing the foundation, balancing the portfolio, and providing more value to customers and shareholders
  - Potential for strong returns driving investment in our IT & Network Communication service offering over the next two-to-three years



# IT MARKET OVERVIEW

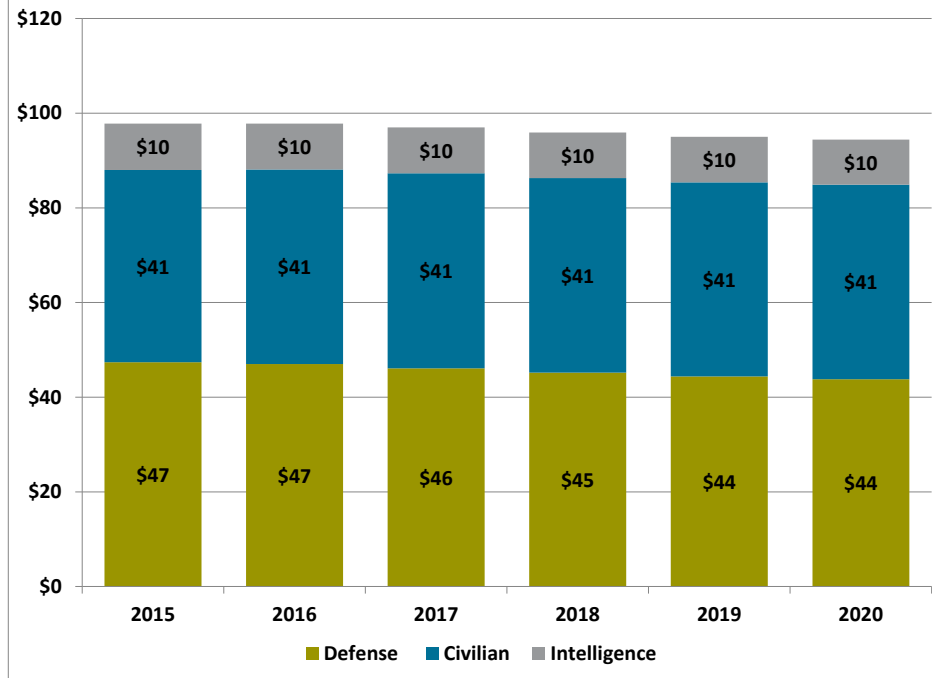
- When it comes to multiple-award contracts, this is the most significant refresh of the federal IT services landscape since fiscal 2008
- The overall federal IT market remains robust at ~\$98B in GFY'15
  - Dept. of Defense = \$47B; Federal Civilian = \$41B; Intelligence = \$10B

### IT Spending by Technology (\$B)



Source: Deltek, Inc.

### IT Spending by Customer (\$B)



Source: Deltek, Inc.



# VECTRUS IT & NETWORK FOCUS

- Vectrus has a long history in the IT and Networks market
  - Incorporated in 1945, we have been in the IT business in one form or another ever since
  - Today, Vectrus provides communications systems sustainment, network security, systems installation and full life cycle management of IT systems for the Department of Defense in various locations across the globe
  - We are currently responsible for the largest tactical network in the Middle East since World War II
  - Vectrus' relationship with U.S. Army Network Enterprise Technology Command extends nearly 40 years
  - In August 2014, Vectrus won the \$517M U.S. Army Corps of Engineers Enterprise Information Management/Information Technology (ACE-IT) contract that provides information management and IT support services to more than 37,000 U.S. Army Corps of Engineer customers

**Vectrus IT & Networks Program Timeline**

Representative sample of services showing approximate dates.





# VECTRUS HIGHLIGHTS

## Strong Core Business

 Core Business Revenue<sup>(1)</sup> Increased 11% YTD<sup>(2)</sup>

## Enduring Customer Relationships

 Some Customer Relationships Extend Beyond 30 Years

## Large Pipeline of Potential Opportunities and Sound Growth Strategy

 Large Addressable Market and \$6 Billion in Potential New Business Opportunities Identified Over Next Twelve Months<sup>(2)</sup>

## Solid Financial Position

 Top Line Stabilizing, Margin Rebound Expected, and Solid Free Cash Flow Conversion

(1) Core Business is defined as Revenue (or adjusted Revenue) less Afghanistan programs.

(2) As of September 25, 2015.



# APPENDIX



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

The primary financial performance measures we use to manage our 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, free cash flow and adjusted funded orders, 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 Tethered Aerostat Radar System (TARS) program which was retained by former parent in connection with the spin-off.*

*“Adjusted operating income” is defined as net income, adjusted to exclude income tax expense (benefit), interest income (expense), TARS program operating income (loss), pretax impact of separation costs incurred to become a public company, and tax indemnifications.*

*“Adjusted operating margin” is defined as net income, adjusted to exclude income tax expense (benefit), interest income (expense), TARS program operating income (loss), pretax impact of separation costs incurred to become a public company, and tax indemnifications divided by adjusted revenue.*

*“Adjusted net income” is defined as net income, adjusted to exclude TARS program operating income (loss), separation costs incurred to become a public company, and net settlement of uncertain tax positions, net of taxes.*

*“Adjusted diluted earnings per share” is defined as net income, adjusted to exclude TARS program operating income (loss), separation costs incurred to become a public company, and net settlement of uncertain tax positions, net of taxes, divided by the weighted average diluted common shares outstanding.*

*“Free cash flow” is defined as GAAP net cash (used in) and provided by operating activities less capital expenditures.*

*“Adjusted funded orders” is defined as funded orders adjusted to exclude the TARS program orders.*

*“Core business revenue” is defined as total adjusted revenue less revenue from Afghanistan programs.*

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
<b>Adjusted Revenue (Non-GAAP Measure)</b>				
Revenue	\$ 299,061	\$ 300,651	\$ 869,490	\$ 917,504
TARS revenue <sup>1</sup>	—	(12,578)	—	(31,315)
Adjusted revenue	<u>\$ 299,061</u>	<u>\$ 288,073</u>	<u>\$ 869,490</u>	<u>\$ 886,189</u>

<sup>1</sup> TARS program historical revenue, which has been retained by former parent.



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
<b>Adjusted Operating Income (Non-GAAP Measure)</b>				
Net income	\$ 14,028	\$ 2,114	\$ 25,012	\$ 19,482
Income tax (benefit) expense	(7,140)	1,155	(958)	10,815
Interest (expense) income, net	(1,583)	(22)	(4,616)	28
Operating income	8,471	3,291	28,670	30,269
Operating margin	2.8 %	1.1 %	3.3 %	3.3 %
TARS operating income (loss) <sup>1</sup> (pretax)	—	(931)	—	(1,541)
Separation costs <sup>2</sup> (pretax)	—	7,148	177	12,681
Tax Indemnifications <sup>3</sup>	\$ 3,300	\$ —	\$ 3,300	\$ —
Adjusted operating income	\$ 11,771	\$ 9,508	\$ 32,147	\$ 41,409
Adjusted operating margin	3.9 %	3.3 %	3.7 %	4.7 %

<sup>1</sup> TARS program historical operating income (loss), which has been retained by former parent.

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

<sup>3</sup> Tax Indemnifications in connection with the spin-off (see NOTE 3 to the financial statements "Tax Indemnifications").

<i>(In thousands, except for per share data)</i>	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
<b>Adjusted Diluted Earnings Per Share</b>				
Net income	\$ 14,028	\$ 2,114	\$ 25,012	\$ 19,482
TARS operating income (loss) <sup>1</sup> (pretax)	—	(931)	—	(1,541)
Separation costs <sup>2</sup> (pretax)	—	7,148	177	12,681
Tax impact of adjustments	—	(2,195)	7	(3,977)
Net settlement of uncertain tax positions <sup>3</sup>	\$ (6,949)	\$ —	\$ (6,949)	\$ —
Adjusted net income	\$ 7,079	\$ 6,136	\$ 18,247	\$ 26,645
GAAP EPS - diluted	\$ 1.29	\$ 0.20	\$ 2.31	\$ 1.86
Adjusted EPS - diluted	\$ 0.65	\$ 0.59	\$ 1.69	\$ 2.54
Weighted average common shares outstanding - diluted	10,848	10,474	10,808	10,474

<sup>1</sup> TARS program historical operating income (loss), which has been retained by former parent.

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

<sup>3</sup> Net settlement of uncertain tax positions due to resolution of examinations of tax returns of our former parent (see NOTE 3 to the financial statements "Uncertain Tax Positions")



# RECONCILIATION OF NON-GAAP MEASURES (CONT.)

<i>(In thousands)</i>	Nine Months Ended	
	September 25, 2015	September 26, 2014
<b>Free Cash Flow (Non-GAAP Measure)</b>		
Net cash provided by operating activities	\$ 10,044	\$ 40,180
Subtract:		
Capital expenditures	(769)	(2,049)
Free cash flow	<u>\$ 9,275</u>	<u>\$ 38,131</u>

<i>(In millions)</i>	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
<b>Adjusted Funded Orders (Non-GAAP Measure)</b>				
Orders	\$ 443.8	\$ 715.6	\$ 919.8	\$ 1,192.9
TARS Orders <sup>1</sup>	\$ —	\$ (12.6)	\$ —	\$ (24.9)
Adjusted Orders	<u>\$ 443.8</u>	<u>\$ 703.0</u>	<u>\$ 919.8</u>	<u>\$ 1,168.0</u>

<sup>1</sup> TARS program historical orders, which has been retained by former parent.

<i>(In thousands)</i>	Three Months Ended			
	September 25, 2015	September 26, 2014	\$ Change	% Change
<b>Adjusted Revenue and Core Business Revenue (Non-GAAP Measure)</b>				
Revenue	\$ 299,061	\$ 300,651		
TARS revenue <sup>1</sup>	—	(12,578)		
Adjusted revenue	<u>\$ 299,061</u>	<u>\$ 288,073</u>		
Less Afghanistan Program Revenue	<u>\$ (38,951)</u>	<u>\$ (65,190)</u>		
Core business revenue	<u>\$ 260,110</u>	<u>\$ 222,883</u>	<u>\$ 37,227</u>	<u>17 %</u>

<i>(In thousands)</i>	Nine Months Ended			
	September 25, 2015	September 26, 2014	\$ Change	% Change
<b>Adjusted Revenue and Core Business Revenue (Non-GAAP Measure)</b>				
Revenue	\$ 869,490	\$ 917,504		
TARS revenue <sup>1</sup>	\$ —	\$ (31,315)		
Adjusted revenue	<u>\$ 869,490</u>	<u>\$ 886,189</u>		
Less Afghanistan Program Revenue	<u>\$ (128,498)</u>	<u>\$ (219,026)</u>		
Core business revenue	<u>\$ 740,992</u>	<u>\$ 667,163</u>	<u>\$ 73,829</u>	<u>11 %</u>

<sup>1</sup> TARS program historical revenue, which has been retained by former parent.