

# VECTRUS FOURTH QUARTER 2017 RESULTS AND ISSUANCE OF 2018 GUIDANCE

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MARCH 1, 2018





# 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 IN 2018 GUIDANCE ABOUT OUR REVENUE, OPERATING MARGIN, NET INCOME, EPS AND NET CASH PROVIDED BY OPERATING ACTIVITIES FOR 2018 AND OTHER ASSUMPTIONS CONTAINED THEREIN FOR PURPOSES OF SUCH GUIDANCE, OUR NEW CREDIT FACILITY, DEBT PAYMENTS, EXPENSE SAVINGS, CONTRACT OPPORTUNITIES, BIDS AND AWARDS, COLLECTIONS, BUSINESS STRATEGY, OUTLOOK, OBJECTIVES, PLANS, INTENTIONS OR GOALS, AND ANY DISCUSSION OF FUTURE OPERATING OR FINANCIAL PERFORMANCE. WHENEVER USED, WORDS SUCH AS "MAY," "WILL," "LIKELY," "ANTICIPATE," "ESTIMATE," "EXPECT," "PROJECT," "INTEND," "PLAN," "BELIEVE," "TARGET," "COULD," "POTENTIAL," "ARE CONSIDERING," "CONTINUE," OR SIMILAR TERMINOLOGY ARE FORWARD-LOOKING STATEMENTS. 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, OUR HISTORICAL EXPERIENCE AND OUR PRESENT EXPECTATIONS OR PROJECTIONS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO: OUR DEPENDENCE ON A FEW LARGE CONTRACTS FOR A SIGNIFICANT PORTION OF OUR REVENUE; COMPETITION IN OUR INDUSTRY; OUR DEPENDENCE ON THE U.S. GOVERNMENT AND THE IMPORTANCE OF OUR MAINTAINING A GOOD RELATIONSHIP WITH THE U.S. GOVERNMENT; OUR ABILITY TO SUBMIT PROPOSALS FOR AND/OR WIN POTENTIAL OPPORTUNITIES IN OUR PIPELINE; OUR ABILITY TO RETAIN AND RENEW OUR EXISTING CONTRACTS; PROTESTS OF NEW AWARDS; ANY ACQUISITIONS, INVESTMENTS OR JOINT VENTURES, INCLUDING THE INTEGRATION OF SENTEL CORPORATION INTO OUR BUSINESS; OUR INTERNATIONAL OPERATIONS, INCLUDING THE ECONOMIC, POLITICAL AND SOCIAL CONDITIONS IN THE COUNTRIES IN WHICH WE CONDUCT OUR BUSINESSES; CHANGES IN U.S. GOVERNMENT MILITARY OPERATIONS, INCLUDING ITS OPERATIONS IN AFGHANISTAN; CHANGES IN, OR DELAYS IN THE COMPLETION OF, U.S. OR INTERNATIONAL GOVERNMENT BUDGETS; GOVERNMENT REGULATIONS AND COMPLIANCE THEREWITH, INCLUDING CHANGES TO THE DEPARTMENT OF DEFENSE PROCUREMENT PROCESS; CHANGES IN TECHNOLOGY; INTELLECTUAL PROPERTY MATTERS; GOVERNMENTAL INVESTIGATIONS, REVIEWS, AUDITS AND COST ADJUSTMENTS; CONTINGENCIES RELATED TO ACTUAL OR ALLEGED ENVIRONMENTAL CONTAMINATION, CLAIMS AND CONCERNS; OUR SUCCESS IN EXPANDING OUR GEOGRAPHIC FOOTPRINT OR BROADENING OUR CUSTOMER BASE, MARKETS AND CAPABILITIES; OUR ABILITY TO REALIZE THE FULL AMOUNTS REFLECTED IN OUR BACKLOG; IMPAIRMENT OF GOODWILL; OUR PERFORMANCE OF OUR CONTRACTS AND OUR ABILITY TO CONTROL COSTS; OUR LEVEL OF INDEBTEDNESS; OUR COMPLIANCE WITH THE TERMS OF OUR CREDIT AGREEMENT; SUBCONTRACTOR AND EMPLOYEE PERFORMANCE AND CONDUCT; OUR TEAMING ARRANGEMENTS WITH OTHER CONTRACTORS; ECONOMIC AND CAPITAL MARKETS CONDITIONS; OUR ABILITY TO RETAIN AND RECRUIT QUALIFIED PERSONNEL; OUR MAINTENANCE OF SAFE WORK SITES AND EQUIPMENT; OUR COMPLIANCE WITH APPLICABLE ENVIRONMENTAL, HEALTH AND SAFETY REGULATIONS; OUR ABILITY TO MAINTAIN REQUIRED SECURITY CLEARANCES; ANY DISPUTES WITH LABOR UNIONS; COSTS OF OUTCOME OF ANY LEGAL PROCEEDINGS; SECURITY BREACHES AND OTHER DISRUPTIONS TO OUR INFORMATION TECHNOLOGY AND OPERATIONS; CHANGES IN OUR TAX PROVISIONS INCLUDING UNDER THE TAX CUTS AND JOBS ACT, OR EXPOSURE TO ADDITIONAL INCOME TAX LIABILITIES; CHANGES IN U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; ACCOUNTING ESTIMATES MADE IN CONNECTION WITH OUR CONTRACTS; OUR EXPOSURE TO INTEREST RATE RISK; OUR COMPLIANCE WITH PUBLIC COMPANY ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS; TIMING OF PAYMENTS BY THE U.S. GOVERNMENT; RISKS AND UNCERTAINTIES RELATING TO THE SPIN-OFF FROM OUR FORMER PARENT; AND OTHER FACTORS SET FORTH IN PART I, ITEM 1A, – "RISK FACTORS," AND ELSEWHERE IN OUR 2017 ANNUAL REPORT ON FORM 10-K AND DESCRIBED FROM TIME TO TIME IN OUR FUTURE REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. 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.



# Q4 & FULL-YEAR 2017 HIGHLIGHTS

- Q4 2017 financial results
  - Revenue of \$296 million, up \$8 million or 2.6%
  - Operating margin of 3.5%
  - Diluted EPS of \$3.70; adjusted diluted EPS <sup>1</sup> \$0.57
- Full-year 2017 financial results
  - Revenue of \$1,115 million, down \$76 million or 6.4%
  - Operating margin of 3.7%
  - Diluted EPS of \$5.31; adjusted diluted EPS <sup>1</sup> \$2.17
  - Net cash provided by operating activities of \$35.4 million
- Developed and began the execution of our strategy to become a leader in the converged infrastructure market
- Added several new leaders to position Vectrus for future growth
- Negotiated and closed new and expanded credit facility
- Increased backlog 24% to \$2.9 billion
- Successfully phased-in several multi-year contracts of approximately \$1.4 billion

(1) See appendix for reconciliation of non-GAAP measure. Change in deferred tax liability related to Tax Cuts and Jobs Act.



# SECURING THE BASE

**Contract Name**

**Contract Type**

**Contract Value**

**Contract Duration**

**U.S. Air Force**

Range Support Services II

Cost-Plus

\$488M

Oct 2017



Mar 2034

Thule

Firm-Fixed Price

\$411M

Oct 2017



Sept 2024

Maxwell BOS

Firm-Fixed Price

\$278M

May 2017



Mar 2024

Keesler

Firm-Fixed Price

\$97M

Aug 2017



May 2024

AFCAP

Firm-Fixed Price

\$23M

Mar 2017



Mar 2021

**U.S. Army**

OPMAS-E

Firm-Fixed Price

\$115M

Jun 2017



Jan 2022

Kuwait DFAC 3.0

Cost-Plus

\$108M

Feb 2018



Feb 2023

Integrated Electronic Surveillance System Maintenance

Firm-Fixed Price

\$4.5M

Jan 2018

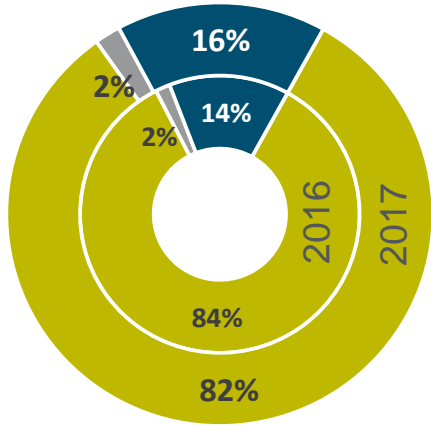


Jan 2021



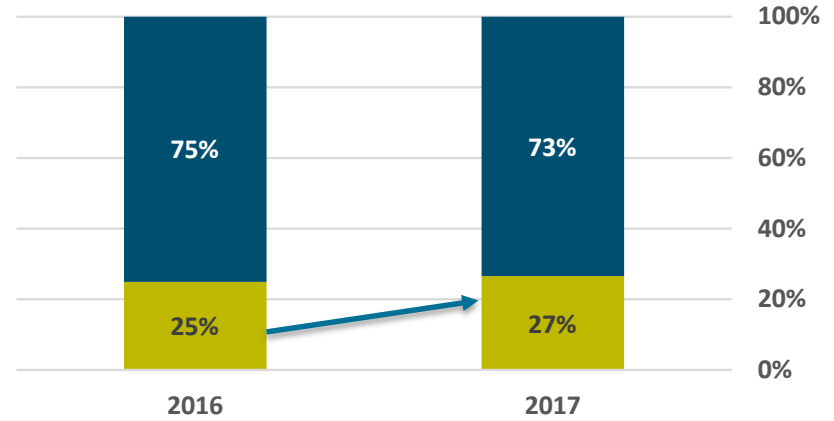
# SHIFTING PORTFOLIO

## Diversifying Client Mix



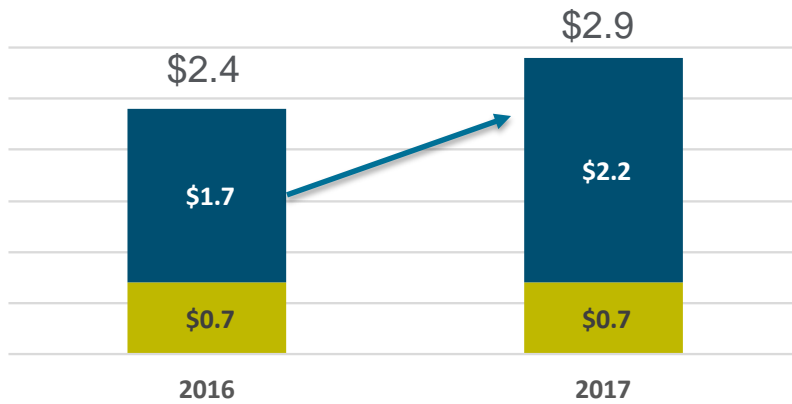
■ Army ■ Navy ■ Air Force

## Contract Mix Shift



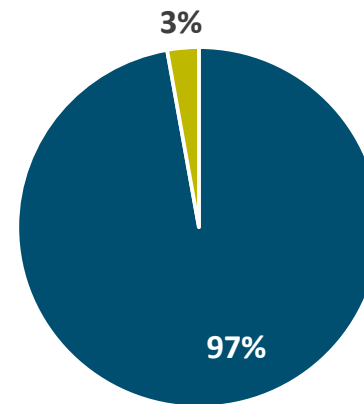
■ Firm-Fixed-Price ■ Cost-Plus and Cost Reimbursable

## Increased Backlog (\$B)



■ Funded ■ Unfunded

## Favorable Prime / Sub Mix (2017)



■ Prime ■ Sub



# BUSINESS UPDATE

- Capital deployment will focus on organic and inorganic growth opportunities that align with our strategy
- New business update
  - Almost \$7 billion in potential new business opportunities identified over the next 12 months
  - Approx. \$1 billion of proposals submitted and pending potential award
- K-BOSSS and LOGCAP V update
- Fiscal 2018 guidance
- Colorado Springs headquarters relocation to a new, employee friendly, and modernized facility
- Subsequent to year-end, on January 23, 2018 Vectrus purchased SENTEL Corporation



# SENTEL CAPABILITIES

**SENTEL is a mission-focused business with expertise in specialized disciplines including Engineering and Advanced Technology Solutions, Intelligence Mission Support, and Logistics and Supply Chain Management (est. 1986). Fiscal 2017 revenue was \$107 million.**



## Logistics

Provides a wide range of services to address logistical planning through the execution of sustainment operations.

*In February 2016, SENTEL was awarded the largest task order in its history to provide logistics support for the Logistics Readiness Center at Fort Bragg.*

- Initial Distribution
- Storage Warehousing
- Asset Management
- Management & Redistribution Support
- Disposal Operations



## Mission Support

Provides multidisciplinary mission support across various clients, primarily the intelligence community.

*In September 2016, SENTEL won its largest intel contract as a prime to provide Worldwide Logistics Management Services.*

- Worldwide secure construction design and oversight
- Multi-level secure network design and certification
- Multi-source intelligence-related services
- Horizontally integrated security and engineering techniques



## Engineering & IT

Develops solutions designed for spectrum management systems, sensor networks, border surveillance systems, perimeter surveillance systems.

*SENTEL has a legacy in electromagnetic effects, ensuring that all components (platforms, systems, subsystems, equipment) on a ship/aircraft can operate without interference. Also provides various IT support and software engineering to DoD & Federal Civilian clients.*

- Systems Integration
- Electromagnetic Effects
- Engineering
- Data Analysis
- Software Engineering
- Secure Network Solutions



# FIVE YEAR PLAN, TARGETED OUTCOMES

***Vectrus will be an innovator and leader in the convergence of our clients' physical and digital infrastructure and supply chains, targeting \$2.5 billion in revenue and 7% EBITDA margins***

**ACTION:** Transform Vectrus into a higher value, technology-enabled and differentiated platform

**HOW:** Transform the way in which Logistics and Facilities services are delivered; become a full lifecycle provider in the converged infrastructure market; create partnerships with leading solutions providers

**DIFFERENTIATE THROUGH HIGHER-VALUE OFFERINGS**

**ACTION:** Grow revenue through deliberate organic activities and purposeful and prudent acquisitions

**ACTION:** Improve business positioning to yield 7% EBITDA margins

**GROW REVENUE TO \$2.5B**

**ATTAIN 7% EBITDA MARGINS**

**HOW:** Organic expansion of programs and contracts; Business development/sales enhancement; inorganic opportunities

**HOW:** Grow Top line; execution of Enterprise Vectrus; infuse higher value capabilities into our programs







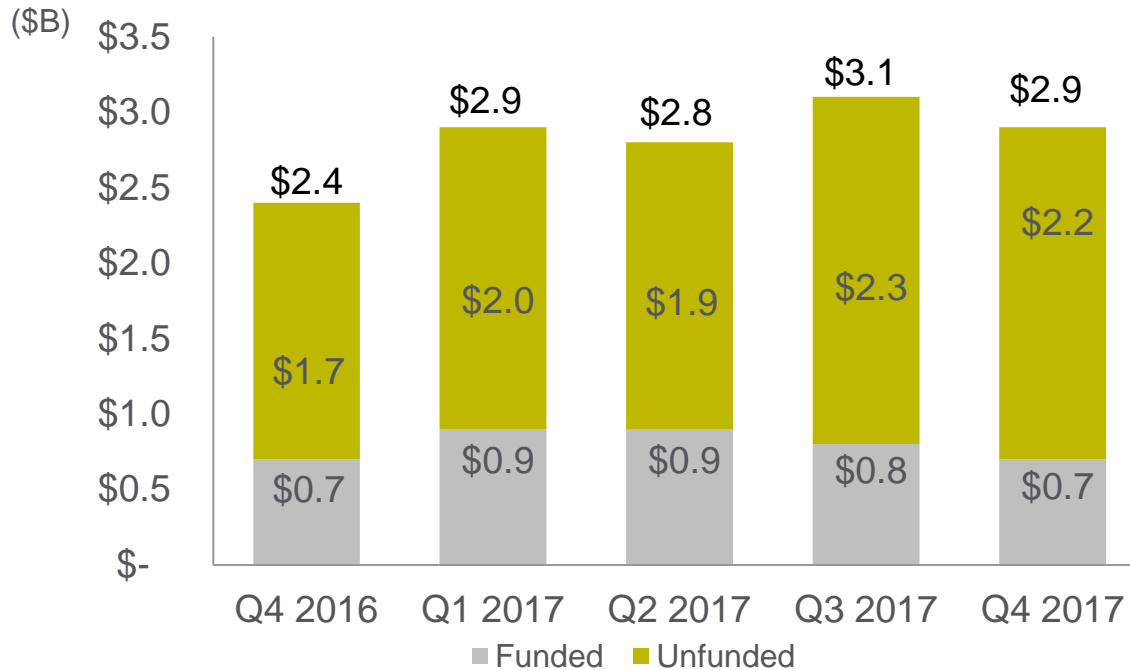
# 2017 FINANCIAL RESULTS

	Three Months Ended December 31,			Year Ended December 31,		
	Q4 2017	Q4 2016	vs 2016	2017	2016	vs. 2016
<i>(In millions, except Operating Margin and Diluted Earnings Per Share)</i>						
<b>Revenue</b>	\$ 295.8	\$ 288.2	\$ 7.6	\$ 1,114.8	\$ 1,190.5	\$ (75.7)
<b>Operating Income</b>	\$ 10.3	\$ 8.6	\$ 1.7	\$ 41.2	\$ 42.8	\$ (1.6)
<b>Operating Margin</b>	3.5 %	3.0 %	0.5 %	3.7 %	3.6 %	0.1 %
<b>Net Income</b>	\$ 41.6	\$ 4.4	\$ 37.2	\$ 59.5	\$ 23.7	\$ 35.8
<i>Adjusted Net Income <sup>1</sup></i>	\$ 6.4	\$ 4.4	\$ 2.0	\$ 24.4	\$ 23.7	\$ 0.7
<b>Diluted Earnings Per Share</b>	\$ 3.70	\$ 0.40	\$ 3.30	\$ 5.31	\$ 2.16	\$ 3.15
<i>Adjusted Diluted Earnings Per Share <sup>1</sup></i>	\$ 0.57	\$ 0.40	\$ 0.17	\$ 2.17	\$ 2.16	\$ 0.01
<b>Net Cash Provided by Operating Activities</b>				\$ 35.4	\$ 36.6	\$ (1.2)

(1) See appendix for reconciliation of non-GAAP measure. Change in deferred tax liability related to Tax Cuts and Jobs Act.



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



- Total backlog \$2,933 million as of December 31, 2017
  - Funded backlog \$719 million
  - Unfunded backlog \$2,214 million

(1) Total backlog represents firm orders and potential options on multi-year contracts, excluding potential orders under IDIQ contracts. Backlog also excludes contracts awarded to Vectrus but currently in protest with the GAO or the Federal Court of Claims.



# 2018 GUIDANCE SUMMARY

<i>\$ millions, except for operating margin and per share amounts</i>	<b>2018 Guidance</b>	<b>2017</b>	<b>2018 Mid</b>	<b>Var</b>	<b>%Var</b>
<b>Revenue</b>	\$ 1,205 to \$ 1,275	\$ 1,115	\$ 1,240	\$ 125	11.2 %
<b>Operating Margin</b>	3.6 % to 4.0 %	3.7 %	3.8 %	10 bps	
<b>Net Income</b>	\$ 30.5 to \$ 36.4	\$ 59.5	\$ 33.5	\$ (26.0)	(43.7)%
<b>Adjusted Net Income <sup>1</sup></b>		\$ 24.4			
<b>Diluted EPS</b>	\$ 2.70 to \$ 3.22	\$ 5.31	\$ 2.96	\$ (2.35)	(44.3)%
<b>Adjusted diluted EPS <sup>1</sup></b>		\$ 2.17			
<b>Cash Provided by Operating Activities</b>	\$ 35.0 to \$ 39.0	\$ 35.4	\$ 37.0	\$ 1.6	4.5 %

## 2018 guidance assumptions:

- Non-recurring transaction related expenses related to acquisition of SENTEL of \$3 million
- Capital expenditures approximately \$9 million
- Depreciation and amortization approximately \$4.2 million
- 2018 mandatory debt payments \$4 million
- Interest expense approximately \$4.3 million
- Estimated tax rate of 22%
- Diluted EPS assumes 11.3 million weighted average diluted shares outstanding at December 31, 2018

(1) See appendix for reconciliation of non-GAAP measure. Change in deferred tax liability related to Tax Cuts and Jobs Act.



# APPENDIX



# RECONCILIATION OF NON-GAAP MEASURES

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 net income and adjusted diluted earnings per share 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 net income and adjusted diluted earnings per share, 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 net income and diluted earnings per share as determined in accordance with GAAP. Reconciliations of these items are provided below.

"Adjusted net income" is defined as net income, adjusted to exclude items that may include, but are not limited to, other income; significant charges or credits that impact current results but are not related to our ongoing operations and unusual and infrequent non-operating items and non-operating tax settlements or adjustments, such as revaluation of our deferred tax liability as a result of the Tax Cuts and Jobs Act and net settlement of uncertain tax positions.

"Adjusted diluted earnings per share" is defined as adjusted net income divided by the weighted average diluted common shares outstanding.

<i>(In thousands, except per share data)</i>	Three Months Ended		Year Ended December 31,	
	December 31,		Year Ended December 31,	
<b>Adjusted Net Income and Adjusted Diluted Earnings Per Share (Non-GAAP Measure)</b>	2017	2016	2017	2016
Net income	\$ 41,567	\$ 4,409	\$ 59,497	\$ 23,655
Revaluation of deferred tax liability <sup>1</sup>	(35,139)	—	(35,139)	—
Adjusted net income	<u>\$ 6,428</u>	<u>\$ 4,409</u>	<u>\$ 24,358</u>	<u>\$ 23,655</u>
GAAP EPS, diluted	\$3.70	\$0.40	\$5.31	\$2.16
Adjusted EPS, diluted	\$0.57	\$0.40	\$2.17	\$2.16
Weighted average common shares outstanding, diluted	11,234	10,988	11,209	10,974

<sup>1</sup> Change in deferred tax liability related to change in federal tax rate under Tax Cuts and Jobs Act.

# VECTRUS

## FOURTH QUARTER 2017 RESULTS AND ISSUANCE 2018 GUIDANCE

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