PRESS RELEASE

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Vectrus Announces Strong 2018 Results; On Track to Achieve Five-Year Growth Plan of $2.5 Billion in Revenue and 7% EBITDA Margin

- **Fourth quarter revenue $330 million, up 11%; Diluted EPS $0.89**
- **Full-year revenue $1,279 million, up 15%; Diluted EPS $3.10**
- **Contract bookings of $1.4 billion including approximately $350 million of new business in 2018**
- **Diversified client and geographic portfolio through growth; Achieved revenue growth of 50% with the Air Force and 60% in U.S. and Europe**
- **Strong cash performance and low leverage ratio provides flexibility for continued strategic execution**

COLORADO SPRINGS, Colo., February 26, 2019 — Vectrus, Inc. (NYSE:VEC) announced fourth quarter and full-year 2018 financial results. For the fourth quarter, revenue was $330 million, operating income was $12.6 million (3.8% margin), GAAP diluted earnings per share (EPS) were $0.89 and adjusted diluted EPS[1] were $0.73. For the full year, revenue was $1,279 million, operating income was $48.3 million (3.8% margin), diluted EPS were $3.10 and adjusted diluted EPS[1] were $2.94. Net cash provided by operating activities for 2018 was $40 million.

"We reported strong fourth quarter and full-year 2018 financial results," said Chuck Prow, president and chief executive officer of Vectrus. "In the fourth quarter, we achieved 11% revenue growth year-over-year as we phased in approximately $350 million of new contract awards won in 2018. Additionally, our 2018 full-year revenue increased 15%, which represents our strongest year-over-year growth rate since becoming a public company. We also had strong cash flow in the fourth quarter, which resulted in approximately $40 million in net cash provided by operating activities for the year."

"During 2018, we positioned Vectrus as a higher value, growth-oriented platform through several new wins, significantly expanding our client and geographic footprint," Prow explained. "We continued to advance our Air Force growth campaign and in 2018 grew our revenue with this important client by almost 50%. We are proud of our progress serving the Air Force client and notably our recent $84 million contract award to provide support services at Sheppard Air Force Base, which builds on our Maxwell and Keesler contract wins and makes Vectrus the largest full and open base operations support services provider to the Air Education and Training Command."

“We plan to replicate our Air Force success through additional growth campaigns,” said Prow. “We are seeing early progress with our recent U.S. Navy client campaign and in the fourth quarter were awarded a new $60 million two-year task order to provide support services at Naval Station Guantanamo Bay, Cuba. Importantly, this base operations support services task order builds on our existing IT and engineering work with the Navy, which includes providing a full range of network support services to the U.S. Navy's afloat force and Electromagnetic Effects Engineering. We look forward to further expanding our relationship with this important client.”

“The ability to execute our margin improvement story is becoming a reality as most of our new business awards in 2018 were fixed-price,” Prow explained. “With approximately 60% of our 2018 new awards being fixed price in nature, we have the ability, through technology insertion to apply Vectrus solutions to generate better client outcomes while improving margins.”

“Our teams continue to execute well, with high levels of client satisfaction,” said Prow. “Notably, we recently received our K-BOSSS contractor performance assessment report from our Army client and I’m proud to announce that we once again received the highest possible ratings across all evaluated areas. This is a highly complex program and I’d like to thank our client for their continued confidence in our ability to support this critical mission.”

"On January 17, 2019, we were notified by the U.S. government of its intent to exercise an option to extend the K-BOSSS contract until March 28, 2020 with an additional six-month option period through September 28, 2020," Prow explained.

“Vectrus is the largest services provider to the DoD in the CENTCOM area of responsibility with incumbency on a major portion of the CENTCOM workload expected under the LOGCAP V construct,” said Prow. “Importantly, during 2018 we continued to solidify our position in CENTCOM through additional new contract wins in Kuwait, Jordan, and United Arab Emirates. We believe that Vectrus is uniquely positioned to win the LOGCAP V CENTCOM area of responsibility and would provide significant continuity and mission assurance to the DoD.”

Full-Year 2018 Results

- Revenue $1,279 million, $164.5 million or 15% increase year-over-year
- Operating income $48.3 million
- Operating margin 3.8%
- Diluted EPS $3.10
- Net cash provided by operating activities $40 million

Full-year 2018 revenue of $1,279 million increased $164.5 million or 15% compared to 2017. The increased revenue was attributable mainly to activity in our U.S. programs of $103.2 million (consisting of a $112.3 million increase related to our acquisition of SENTEL), $45.1 million from our European programs and $16.2 million from our Middle East programs.

“Our full-year 2018 financial results show significant growth compared to 2017 and are demonstrative of our strategy to grow Vectrus into a higher value, growth-oriented platform," said Matt Klein, chief financial officer of Vectrus. "We reached several public company milestones in 2018 with record revenue, operating margin, adjusted diluted EPS[1] (excluding one-time tax benefits) and operating cash flow. We made great progress in 2018 and remain on track for the achievement of our five-year financial plans."

Operating income was $48.3 million or 3.8% operating margin for the full-year 2018, compared to $41.2 million or 3.7% in 2017.

Full-year 2018 diluted EPS were $3.10 compared to $5.31 in 2017. Adjusted diluted EPS[1] for 2018 and 2017 were $2.94 and $2.17.

Net cash provided by operating activities for the year ended December 31, 2018 was $40.1 million, an increase of $4.7 million compared to 2017. Days sales outstanding (DSO) was 63 days in 2018.

The Company ended 2018 with total debt of $75.0 million, which was down $4.0 million from $79.0 million at the end of 2017. The Company also ended the year with cash of $66.1 million. As of December 31, 2018, the Company had a total consolidated indebtedness to consolidated EBITDA (total leverage ratio) of 1.25x to 1.00x.

“Our strong financial performance, strategic execution, and capital allocation activities in 2018 significantly enhanced our positioning,” said Klein. “During the year we successfully won approximately $350 million of new business, completed the acquisition and integration of SENTEL, and reduced our overall leverage profile.”

The Company ended 2018 with total backlog of $3.0 billion and funded backlog of $688.6 million.

2019 Guidance

2019 guidance details include:

“We expect annual revenue to be in the range of $1,300 million to $1,330 million with a mid-point of $1,315 million which assumes the full-year extension of K-BOSSS, our largest contract as a percentage of revenue," said Klein. "Full-year operating margin is expected at 3.8% to 4.2% and net income is expected to be in the range of $35.3 million to $40.4 million. We expect to see diluted EPS in the range of $3.07 to $3.51 per share and net cash provided by operating activities is expected at $40.0 million to $46.0 million. Our 2019 guidance assumes interest expense of $4.7 million, capital expenditures of approximately $8.5 million, depreciation and amortization expense of $4.1 million, mandatory debt payments of $4.5 million, a tax rate of 21 percent and weighted average diluted shares outstanding of 11.5 million at December 31, 2019.”

$ millions, except for operating margin, EBITDA margin, and per share amounts	**2019 Guidance**			**2019 Mid**
Revenue	$ 1,300	to	$ 1,330	$ 1,315
Operating Margin	3.8%	to	4.2%	4.0%
EBITDA Margin	4.1%	to	4.5%	4.3%
Net Income	$ 35.3	to	$ 40.4	$ 37.9
Diluted EPS [2]	$ 3.07	to	$ 3.51	$ 3.29
Cash Provided by Operating Activities	$ 40.0	to	$ 46.0	$ 43.0

The Company notes that forward-looking statements of future performance made in this release, including 2019 guidance, the potential for winning LOGCAP V CENTCOM award and the five-year growth plan are based upon current expectations and are subject to factors that could cause actual results to differ materially from those suggested here, including those factors set forth in the Safe Harbor Statement below.

Investor Call

Management representatives will conduct an investor briefing and conference call at 4:30 p.m. ET on Tuesday, February 26, 2019.

U.S.-based participants may dial into the conference call at 877-407-0792, while international participants may dial 201-689-8263. For all other listeners, a live webcast of the briefing and conference call will be available on the Vectrus Investor Relations website at http://investors.vectrus.com.

A replay of the briefing will be posted on the Vectrus website shortly after completion of the call, and will remain available for one year. A telephonic replay will also be available through March 12, 2019, at 844-512-2921 (domestic) or 412-317-6671 (international) with pass code 13687137.

Footnotes:

[1] See appendix for reconciliation.

[2] 2019 EPS guidance is calculated using estimated weighted average diluted common shares outstanding for the year ending December 31, 2019 of 11.5 million.

About Vectrus

Vectrus is a leading global government services company with a history in the services market that dates back more than 70 years. The company provides facility and base operations; supply chain and logistics services; information technology mission support; and engineering and digital technology services to U.S. government customers around the world. Vectrus is differentiated by operational excellence, superior program performance, a history of long-term customer relationships and a strong commitment to their customers' mission success. Vectrus is headquartered in Colorado Springs, Colo., and includes about 6,700 employees spanning 129 locations in 22 countries. In 2018, Vectrus generated sales of $1.3 billion. To learn about career opportunities at Vectrus, visit www.vectrus.com/careers. For more information, visit the company's website at www.vectrus.com or connect with Vectrus on Facebook, Twitter, and LinkedIn.

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 2019 Guidance above about our revenue, operating margin, net income, diluted EPS and net cash provided by operating activities for 2019 and other assumptions contained therein for purposes of such guidance, other statements about our five-year growth plan, revenue and DSO, our credit facility, debt payments, expense savings, contract opportunities, bids and awards, including the potential for winning LOGCAP V CENTCOM award, collections, business strategy, outlook, objectives, plans, intentions or goals, and any discussion of future operating or financial performance. Whenever used, words such as "may," "are considering," "will," "likely," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "could," "potential," "continue," "goal" 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 mix of cost-plus, cost-reimbursable, and firm-fixed price contracts; 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; changes in, or delays in the completion of, U.S. or international government budgets or government shutdowns; 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, including changes related to Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606); accounting estimates made in connection with our contracts; the adequacy of our insurance coverage; the volatility of our stock price; 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 2018 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.

VECTRUS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Year Ended December 31, 2018	2017	2016
Revenue	$ 1,279,304	$ 1,114,788	$ 1,190,519
Cost of revenue	1,164,609	1,012,840	1,083,607
Selling, general and administrative expenses	66,372	60,728	64,086
Operating income	48,323	41,220	42,826
Interest expense, net	(5,071)	(4,640)	(5,639)
Income from operations before income taxes	43,252	36,580	37,187
Income tax expense (benefit)	7,956	(22,917)	13,532
Net income	$ 35,296	$ 59,497	$ 23,655
Earnings per share			
Basic	$ 3.14	$ 5.40	$ 2.21
Diluted	$ 3.10	$ 5.31	$ 2.16
Weighted average common shares outstanding - basic	11,224	11,021	10,714
Weighted average common shares outstanding - diluted	11,378	11,209	10,974

VECTRUS, INC.CONSOLIDATED BALANCE SHEETS

	December 31,	
(In thousands, except share information)	2018	2017
Assets		
Current assets		
Cash	$ 66,145	$ 77,453
Receivables	232,119	174,995
Costs incurred in excess of billings	—	12,751
Other current assets	15,063	6,747
Total current assets	313,327	271,946
Property, plant, and equipment, net	13,419	3,733
Goodwill	233,619	216,930
Intangible assets, net	8,630	121
Other non-current assets	3,248	2,821
Total non-current assets	258,916	223,605
Total Assets	572,243	495,551
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	156,393	115,899
Billings in excess of costs	—	3,766
Compensation and other employee benefits	41,790	39,304
Short-term debt	4,500	4,000
Other accrued liabilities	22,303	19,209
Total current liabilities	224,986	182,178
Long-term debt, net	69,137	73,211
Deferred tax liability	55,358	55,329
Other non-current liabilities	1,462	1,461
Total non-current liabilities	125,957	130,001
Total liabilities	350,943	312,179
Commitments and contingencies		
Shareholders' Equity		
Preferred stock; $0.01 par value; 10,000,000 shares authorized; No shares issued and outstanding	—	—
Common stock; $0.01 par value; 100,000,000 shares authorized; 11,266,906 and 11,120,528 shares issued and outstanding as of December 31, 2018 and 2017, respectively	113	111
Additional paid in capital	71,729	67,526
Retained earnings	152,616	117,415
Accumulated other comprehensive loss	(3,158)	(1,680)
Total shareholders' equity	221,300	183,372
Total Liabilities and Shareholders' Equity	$ 572,243	$ 495,551

VECTRUS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In thousands)	2018	2017	2016
Operating activities			
Net income	$ 35,296	$ 59,497	$ 23,655
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	1,798	1,686	1,920
Amortization of intangible assets	1,999	—	—
Loss on disposal of property, plant, and equipment	348	—	405
Stock-based compensation	4,096	4,467	4,649
Amortization of debt issuance costs	426	1,464	1,198
Changes in assets and liabilities:			
Receivables	(24,646)	178	37,814
Other assets	(8,193)	3,455	(13,903)
Accounts payable	29,960	(4,346)	(3,766)
Billings in excess of costs	—	2,345	(4,605)
Deferred taxes	475	(35,321)	(2,163)
Compensation and other employee benefits	178	3,256	(1,808)
Other liabilities	(1,681)	(1,271)	(6,778)
Net cash provided by operating activities	40,056	35,410	36,618
Investing activities			
Purchases of capital assets	(10,025)	(2,344)	(741)
Proceeds from the disposition of assets	33	—	116
Acquisition of business, net of cash acquired	(36,855)	—	—
Distributions from equity investment	—	—	573
Net cash (used in) investing activities	(46,847)	(2,344)	(52)
Financing activities			
Proceeds from issuance of long-term debt	—	80,000	—
Repayments of long-term debt	(4,000)	(86,000)	(29,000)
Proceeds from revolver	207,000	42,500	74,000
Repayments of revolver	(207,000)	(42,500)	(74,000)
Proceeds from exercise of stock options	1,595	2,031	2,146
Payment of debt issuance costs	—	(1,844)	(221)
Payments of employee withholding taxes on share-based compensation	(880)	(1,317)	(987)
Net cash (used in) financing activities	(3,285)	(7,130)	(28,062)
Exchange rate effect on cash	(1,232)	3,866	(848)
Net change in cash	(11,308)	29,802	7,656
Cash-beginning of year	77,453	47,651	39,995
Cash-end of year	$ 66,145	$ 77,453	$ 47,651

Supplemental Disclosure of Cash Flow Information:						
Interest paid	$	4,973	$	5,886	$	5,278
Income taxes paid	$	11,588	$	4,802	$	26,068
Purchase of capital assets on account	$	1,128	$	—	$	—

Key Performance Indicators and Non-GAAP Financial 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, adjusted EPS, EBITDA and EBITDA margin 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, adjusted diluted EPS, EBITDA and EBITDA margin, 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 EPS 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 EPS" is defined as adjusted net income divided by the weighted average diluted common shares outstanding.

"EBITDA" is defined as operating income, adjusted to exclude depreciation and amortization.

"EBITDA margin" is defined as EBITDA divided by revenue.

(In thousands, except per share data)	Three Months Ended December 31,		Year Ended December 31,	
Adjusted Net Income and Adjusted Diluted Earnings Per Share (Non-GAAP Measures)	2018	2017	2018	2017
Net income	$ 10,123	$ 41,567	$ 35,296	$ 59,497
Revaluation of deferred tax liability [1]	—	(35,139)	—	(35,139)
Non-recurring return to provision true-ups [2]	(1,854)	—	(1,854)	—
Adjusted net income	$ 8,269	$ 6,428	$ 33,442	$ 24,358
GAAP EPS, diluted	$ 0.89	$ 3.70	$ 3.10	$ 5.31
Adjusted EPS, diluted	$ 0.73	$ 0.57	$ 2.94	$ 2.17
Weighted average common shares outstanding, diluted	11,369	11,234	11,378	11,209

[1] Change in deferred tax liability related to change in federal tax rate under Tax Cuts and Jobs Act.

[2] One-time tax benefit.

(In thousands, except operating margin and EBITDA margin)	Three Months Ended December 31,		Year Ended December 31,	
EBITDA (Non-GAAP Measures)	2018	2017	2018	2017
Revenue	$ 329,559	$ 295,783	$ 1,279,303	$ 1,114,788
Operating Income	12,647	10,277	48,323	41,220
Operating Margin	3.8%	3.5%	3.8%	3.7%
Add:				
Depreciation and Amortization	1,252	545	3,798	1,686
EBITDA	$ 13,899	$ 10,822	$ 52,121	$ 42,906
EBITDA Margin	4.2%	3.7%	4.1%	3.8%

SUPPLEMENTAL INFORMATION

Revenue by client branch, contract type, contract relationship, and geographic region for the periods presented below was as follows:

	Year Ended								
Revenue by Client	December 31,			December 31,			December 31,		
(In thousands)		2018	% of Total		2017	% of Total		2016	% of Total
Army		934,427	73%		915,554	82%		1,004,842	84%
Air Force		259,511	20%		177,338	16%		165,611	14%
Navy		38,802	3%		21,896	2%		20,066	2%
Other		46,564	4%		—	—%		—	—%
Total revenue	$	1,279,304	100%	$	1,114,788	100%	$	1,190,519	100%

	Year Ended								
Revenue by Contract Type	December 31,			December 31,			December 31,		
(In thousands)		2018	% of Total		2017	% of Total		2016	% of Total
Cost-plus and cost-reimbursable [1]		995,415	78%		818,908	73%		892,842	75%
Firm-fixed-price		283,889	22%		295,880	27%		297,677	25%
Total revenue	$	1,279,304	100%	$	1,114,788	100%	$	1,190,519	100%

[1] Includes time and material contracts

	Year Ended								
Revenue by Contract Relationship	December 31,			December 31,			December 31,		
(In thousands)		2018	% of Total		2017	% of Total		2016	% of Total
Prime contractor		1,200,726	94%		1,083,485	97%		1,131,773	95%
Subcontractor		78,578	6%		31,303	3%		58,746	5%
Total revenue	$	1,279,304	100%	$	1,114,788	100%	$	1,190,519	100%

	Year Ended								
Revenue by Geographic Region	December 31,			December 31,			December 31,		
(In thousands)		2018	% of Total		2017	% of Total		2016	% of Total
Middle East		889,620	70%		871,821	78%		976,586	82%
United States		269,750	21%		168,003	15%		157,161	13%
Europe		119,934	9%		74,964	7%		56,772	5%
Total revenue	$	1,279,304	100%	$	1,114,788	100%	$	1,190,519	100%

Source: Vectrus, Inc.