



# VSE Corporation Earnings Presentation

First Quarter 2020

1 May 2020

## Forward-Looking Statements

This document contains certain forward-looking statements. These forward-looking statements, which are included in accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, may involve known and unknown risks, uncertainties and other factors that may cause VSE's actual results and performance in future periods to be materially different from any future results or performance suggested by the forward-looking statements in this document. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that actual results will not differ materially from these expectations. "Forward-looking" statements, as such term is defined by the Securities Exchange Commission (the "SEC") in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, the impact of widespread health developments, such as the ongoing COVID-19 outbreak, and the governmental, commercial, consumer and other responses thereto, growth and acquisition strategies, investments and future operational plans. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "forecast," "seek," "plan," "predict," "project," "could," "estimate," "might," "continue," "seeking" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including, but not limited to, the uncertainty surrounding the ongoing COVID-19 outbreak and the other factors identified in our reports filed or expected to be filed with the SEC including our Annual Report on Form 10-K for the year ended December 31, 2019. All forward-looking statements made herein are qualified by these cautionary statements and risk factors and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. Readers are cautioned not to place undue reliance on these forward looking-statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results.

## Non-GAAP Financial Measures

In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), this document also contains Non-GAAP financial measures. We consider Adjusted Net Income, Adjusted EPS (Diluted), EBITDA, Adjusted EBITDA, net leverage ratio, trailing-twelve month Adjusted EBITDA and free cash flow as non-GAAP financial measures and important indicators of performance and useful metrics for management and investors to evaluate our business's ongoing operating performance on a consistent basis across reporting periods. Adjusted Net Income represents Net Income adjusted for discrete items. Adjusted EPS (Diluted) is computed by dividing net income, adjusted for the discrete items and the related tax impacts, by the diluted weighted average number of common shares outstanding. EBITDA represents net income before interest expense, income taxes, amortization of intangible assets and depreciation and other amortization. Adjusted EBITDA represents EBITDA adjusted for discrete items, and free cash flow represents operating cash flow less capital expenditures. Net leverage ratio is calculated as net debt (total principal debt less cash) divided by trailing twelve month Adjusted EBITDA. The reasons why we believe these measures provide useful information to investors and a reconciliation of these measures to the most directly comparable GAAP measures and other information relating to these Non-GAAP measures are included in the supplemental schedules attached.

# 1Q20 CONSOLIDATED PERFORMANCE

Y/Y Growth in Revenue, Adjusted Net Income, Adjusted EBITDA, Free Cash Flow, Adjusted EPS

**Total Revenue**  
+4.4% y/y

- > Total Commercial Customer Revenue: \$67.3 million or 38% of sales
- > Total Government Customer Revenue: \$110.1 million or 62% of sales

**Adjusted Net Income**  
+32% y/y

- > GAAP net income: \$3.3 million or \$0.30 per fully diluted share
- > Adjusted net income: \$9.8 million or \$0.89 per fully diluted share

**Adjusted EBITDA**  
+15.4% y/y

- > Total adjusted EBITDA up +15.4% y/y to \$22.7 million
- > Generated y/y adjusted EBITDA growth across all segments

**Free Cash Flow**  
+\$5.6M y/y

- > Operating cash flow: \$6.8 million, up +\$5.7 million y/y
- > Free cash flow: \$6.0 million, up \$5.6 million y/y

**Available Cash/Liquidity**  
+\$74.6M y/y

- > Total cash and availability: \$176 million
- > Net debt to TTM adjusted EBITDA: 2.9x

# COVID-19 BUSINESS UPDATE

All Segments Remain Operational; Cost Reduction Plan in Effect



## EMPLOYEE SAFETY

- Health & Safety of our employees remains our top priority
- Adopted measures in compliance with U.S. Centers for Disease Control & Prevention standards, including:
  - Social distancing, remote work where practicable, onsite employee temperature checks, supplying personal protection equipment, travel and visitor restrictions, regular facility / equipment sanitization



## COST REDUCTIONS

- Operating expense and reduction in Q1/Q2: ~\$13M annualized
- Aviation segment: adjusted cost structure to support current and near-term forecasted demand environment
  - Departure of Aviation President; John Cuomo to fill role on interim basis



## BUSINESS OPERATIONS

- VSE operations are “critical and essential” infrastructure per federal and state governments
- All operational facilities remain open for business; no disruption to operations
- Our network of parts suppliers is meeting current demand levels; we do not anticipate material supply chain disruptions
- Federal & Defense and Fleet segments expected to remain relatively stable in the current environment
- Aviation segment expected to be impacted by a global decline in air traffic

# GAAP FINANCIAL SUMMARY

1Q20 and TTM<sup>(1)</sup> – Y/Y Comparisons

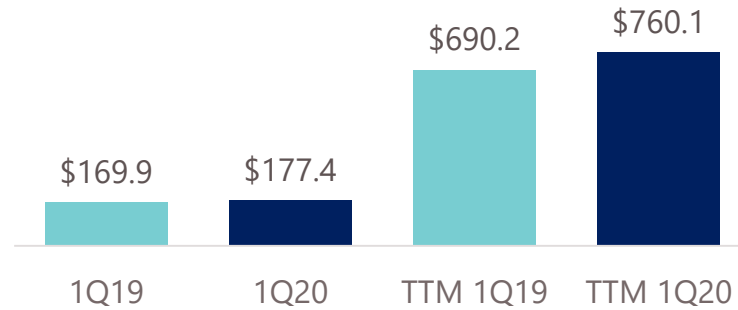
## Market Share Gain Drives Growth

- > Aviation repair and Fleet commercial customer gains; sales from new product offerings drove strong organic revenue growth in Q1

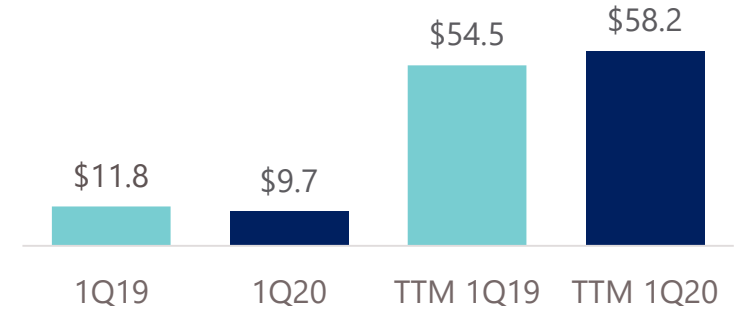
## Non-Recurring Items

- > \$1.1M gain on sale of real estate
- > (\$7.5M) non-cash loss on sale of Prime Turbines business (exit of engine repair market)
- > (\$0.3M) earn-out obligation expense

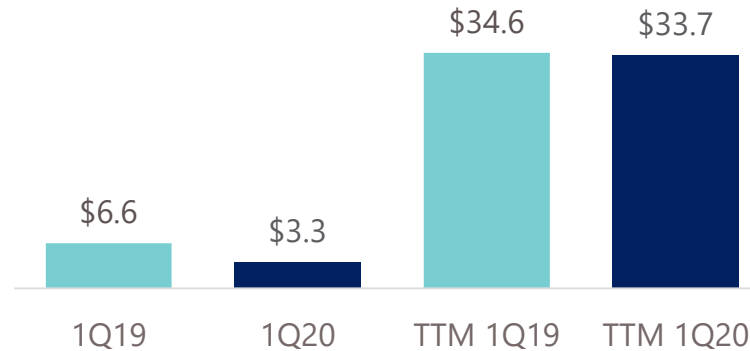
### Total Revenue (\$MM)



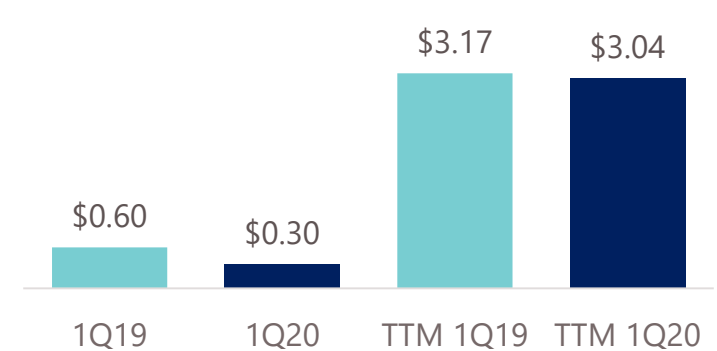
### Operating Income (\$MM)



### Net Income (\$MM)



### Diluted Earnings Per Share (\$ Per Share)



(1) TTM is defined as the trailing twelve (12) months ended March 31, 2020 and March 31, 2019, respectively. TTM 1Q20 is calculated using fiscal year 2019 less 1Q19 and includes 1Q20, while TTM 1Q19 uses fiscal year 2018 less 1Q18 and includes 1Q19.

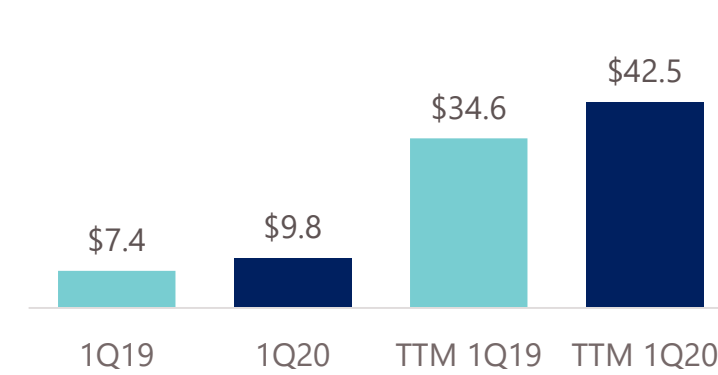
# NON-GAAP FINANCIAL SUMMARY

1Q20 and TTM – Y/Y Comparisons

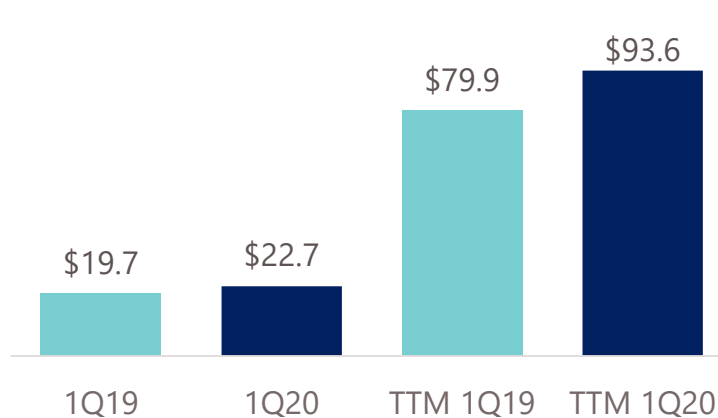
## Broad-Based Y/Y Improvement

- > Adjusted Net Income +32%
- > Adjusted EPS +30.9%
- > Adjusted EBITDA +15.4%
- > Strong performance in Aviation: high-margin, organic revenue growth
- > Contract mix and shift of business to more firm-fixed price, higher-margin contracts in Federal & Defense
- > Focused expense management

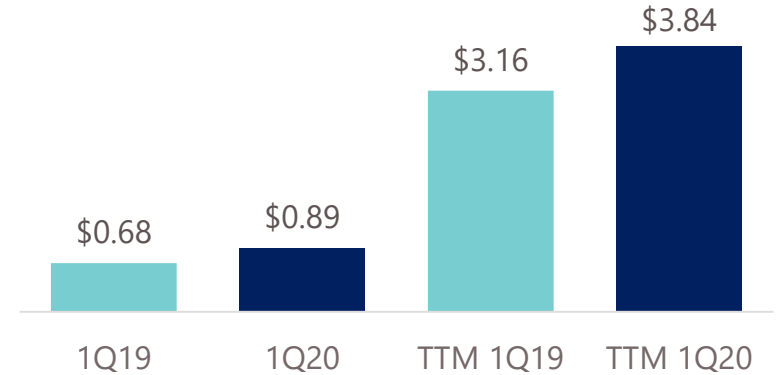
**Adjusted Net Income**  
(\$MM)



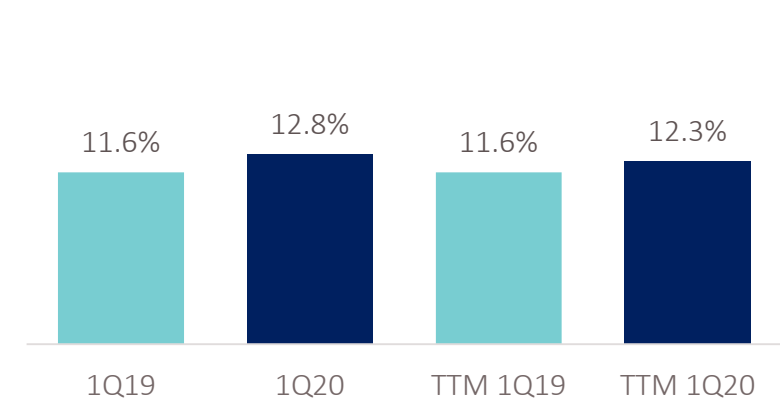
**Adjusted EBITDA**  
(\$MM)



**Adjusted Diluted Earnings Per Share**  
(\$ Per Share)



**Adjusted EBITDA Margin**  
(%)



# 1Q19 vs. 1Q20 PERFORMANCE BRIDGE

Y/Y Comparisons

## Revenue Drivers

- > Aviation distribution and repair revenue increased \$8.7M or 18%
- > Fleet revenue increased \$1.5M or 3%, led by commercial customer growth
- > Federal & Defense revenue decreased (\$2.7M) due to expiration of large Army contract offset by growth on Naval contract

## EBITDA Drivers

- > Aviation repair services
- > Federal & Defense contract mix and growth in fixed-price contracts

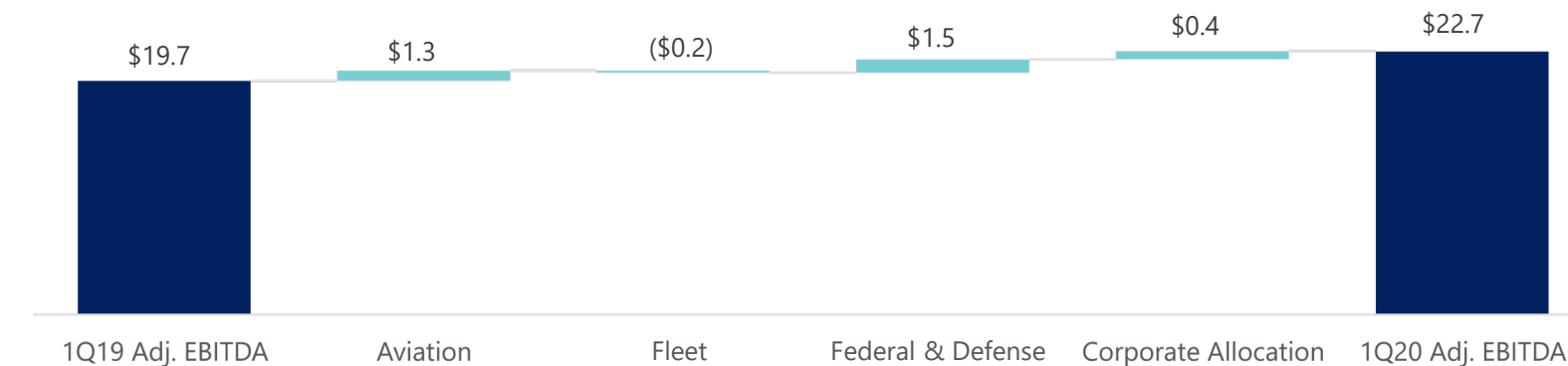
### Total Revenue Bridge

(\$MM)



### Total Adjusted EBITDA Bridge

(\$MM)



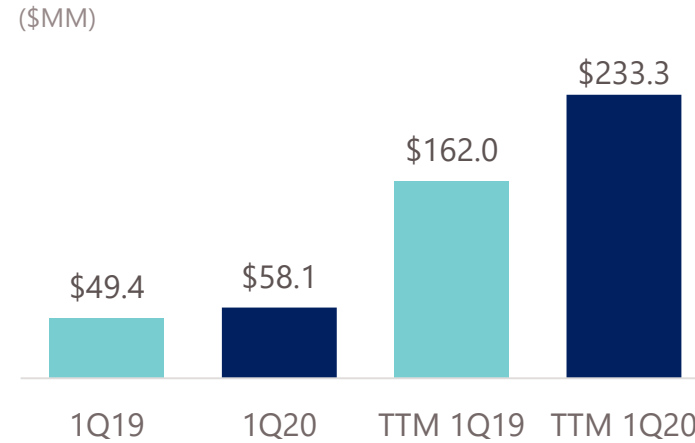
# AVIATION

## 1Q20 and TTM – Y/Y Comparisons

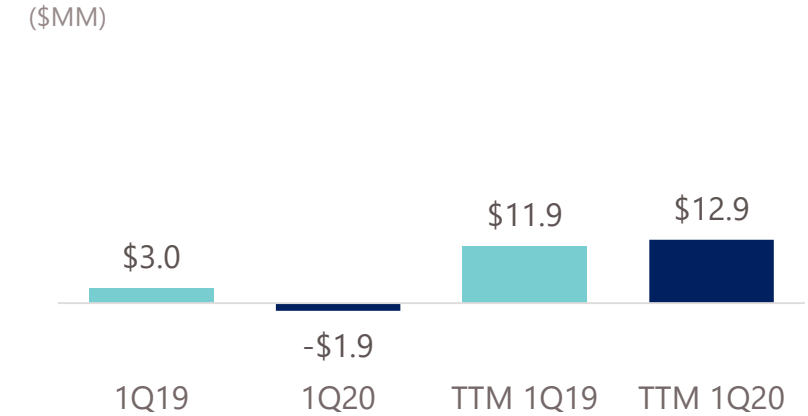
### Revenue +18% Y/Y

- > Revenue growth across all aviation revenue streams
- > Balanced growth both in distribution product sales and MRO services revenue
- > Growth from new distribution product line additions and new repair capabilities

### Aviation Segment Revenue



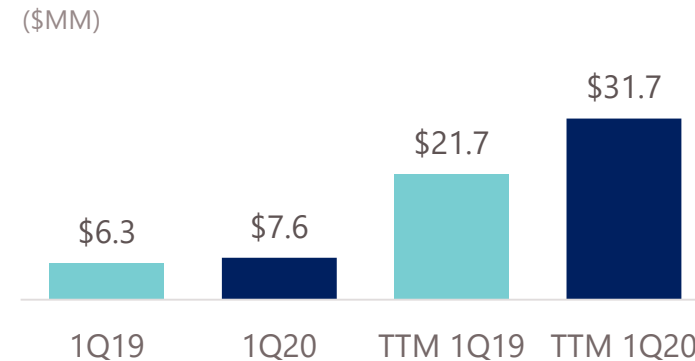
### Aviation Segment Operating Income



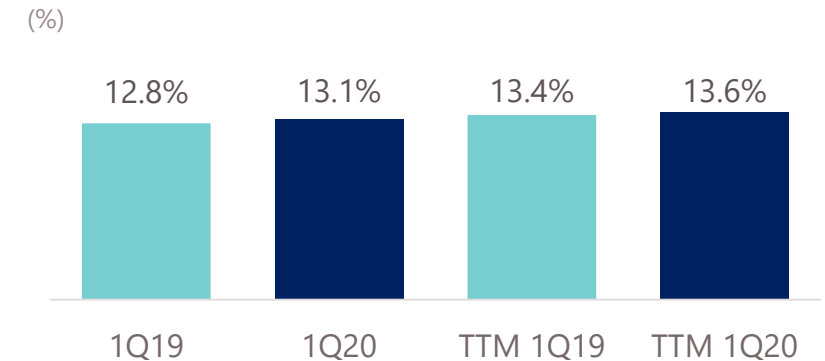
### Adjusted EBITDA +21% Y/Y

- > Organic sales growth and improved profit contribution from repair businesses units drive profit improvement
- > Non-recurring sale of business assets in 1Q20 reduced GAAP operating income by (\$6.4M)

### Aviation Segment Adjusted EBITDA



### Aviation Segment Adjusted EBITDA Margin





### Revenue +3% Y/Y

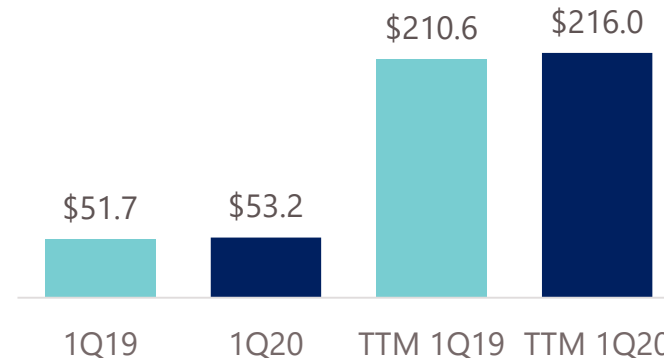
- > Revenue increase due to strategic commercial customer growth of +\$4.8M or 122%

### Adjusted EBITDA (2%) Y/Y

- > Operating expense increase associated with investments to support customer diversification strategy
- > Lower margin commercial customer mix

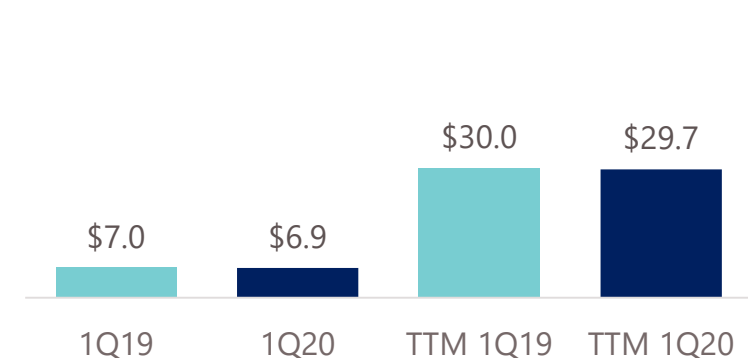
### Fleet Segment Revenue

(\$MM)



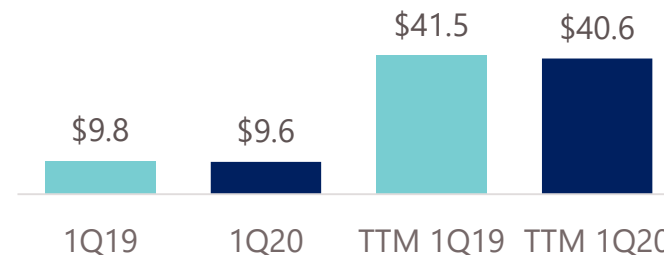
### Fleet Segment Operating Income

(\$MM)



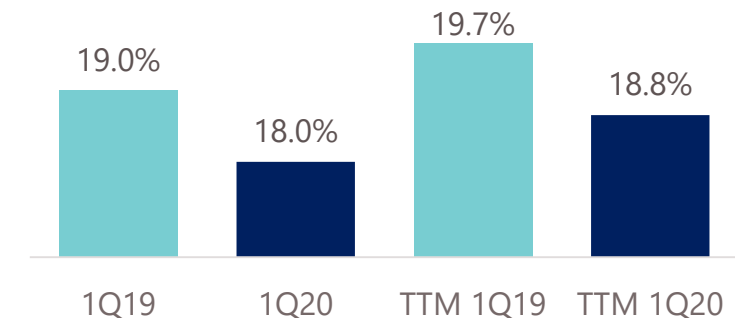
### Fleet Segment Adjusted EBITDA

(\$MM)



### Fleet Segment Adjusted EBITDA Margin

(%)



# FEDERAL & DEFENSE

1Q20 and TTM – Y/Y Comparisons

## Revenue (4%) Y/Y

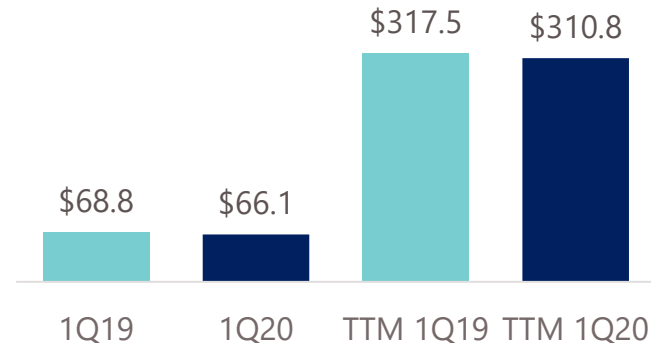
- > Revenue decline due to expiration of US Army contract in early Q1 partially offset by growth in Naval customers
- > Segment bookings increased 31% year-over-year to \$67 million

## Adjusted EBITDA +34% Y/Y

- > Improved contract execution, cost balancing and contract mix (increase in fixed-price contracts) drove profit improvement

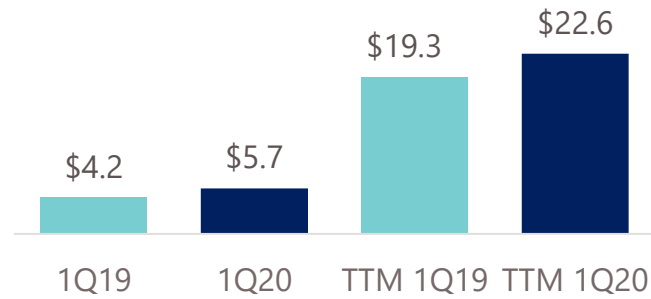
### Federal & Defense Segment Revenue

(\$MM)



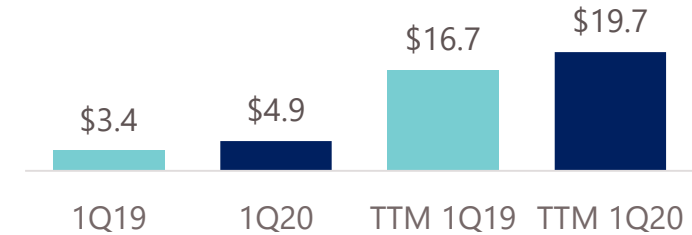
### Federal & Defense Segment Adjusted EBITDA

(\$MM)



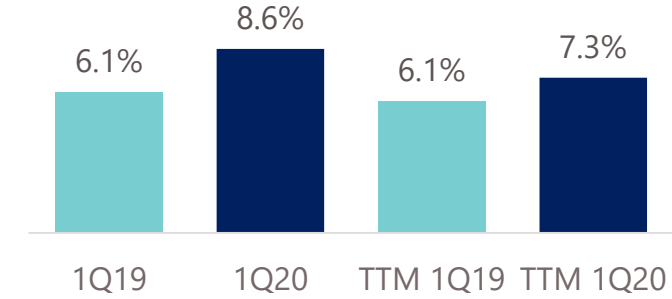
### Federal & Defense Segment Operating Income

(\$MM)



### Federal & Defense Segment Adjusted EBITDA Margin

(%)



# MAINTAINING BALANCE SHEET OPTIONALITY

\$176M Availability on Lending Facilities; 2.9x Net Leverage Ratio

## Access to Liquidity *(31 Mar 2020)*

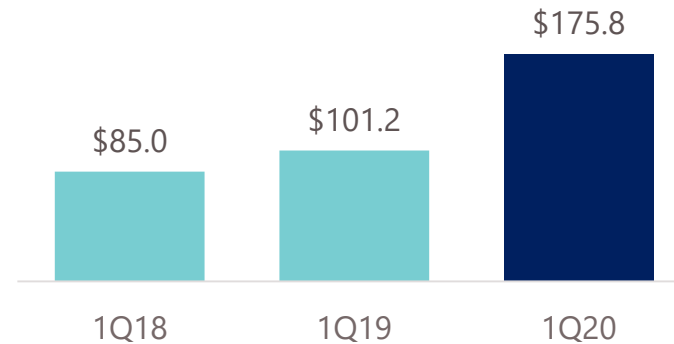
- > \$176M cash and unused commitment availability under \$350M revolving credit facility due 2023
- > Existing credit facility includes \$100M accordion provision
- > Total net debt outstanding of \$273M and \$94M trailing 12-months adjusted EBITDA

## Q1 Liquidity Highlights

- > Y/Y net leverage decline
- > 1st Choice earn-out payment: \$32M
- > Proceeds from Prime Turbines sale: \$21M

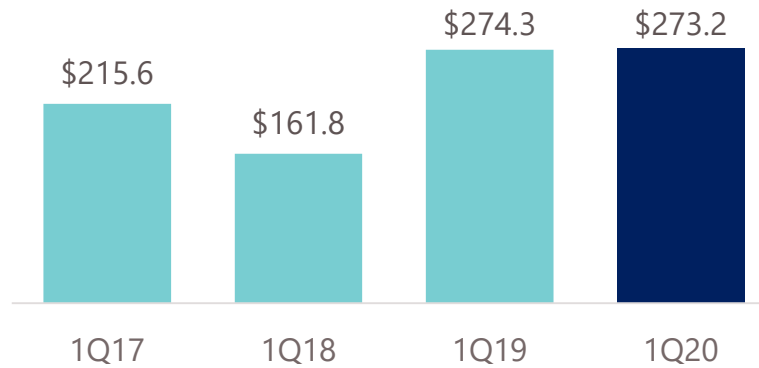
### Unused Commitments on Term Loan and Revolving Credit Facility

(\$ MM)



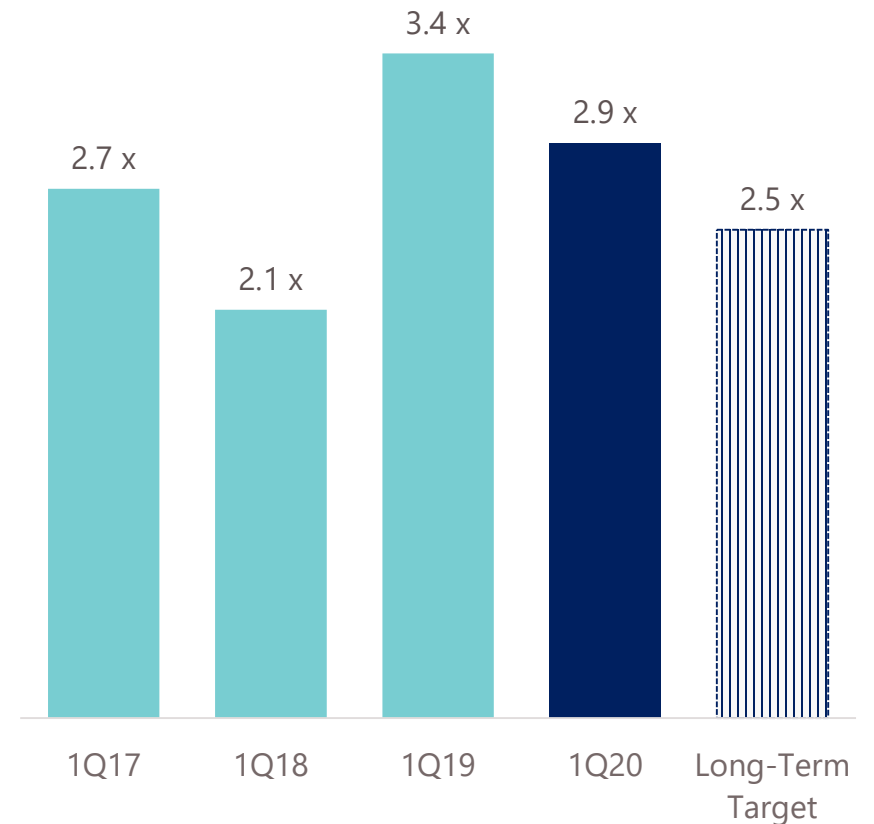
### Total Net Debt

(\$ MM)



### Ratio of Net Debt to TTM Adjusted EBITDA

(1)



(1) Net Debt is defined as total debt less cash and cash equivalents; TTM Adjusted EBITDA is defined as Adjusted EBITDA for the most recent twelve (12) calendar months.

# GAAP TO NON-GAAP RECONCILIATIONS

Adjusted Net Income and Adjusted EPS (Diluted)



*(in thousands)*

	Three Months Ended March 31,		
	2020	2019	% Change
<b>Net Income</b>	<b>\$3,332</b>	<b>\$6,603</b>	<b>(49.5)%</b>
Adjustments to Net Income:			
Acquisition and CEO transition costs	—	1,121	
Earn-out adjustment	301	—	
Loss on sale of a business entity and certain assets	7,536	—	
Gain on sale of property	(1,108)	—	
Tax impact of adjusted items <sup>(1)</sup>	(236)	(280)	
<b>Adjusted Net Income</b>	<b>\$9,825</b>	<b>\$7,444</b>	<b>32.0%</b>
Diluted weighted average shares	11,101	10,974	
<b>Adjusted EPS (Diluted)</b>	<b>\$0.89</b>	<b>\$0.68</b>	<b>30.9%</b>

(1) Calculation uses an estimated statutory tax rate on non-GAAP tax deductible adjustments.

# GAAP TO NON-GAAP RECONCILIATIONS

## EBITDA and Adjusted EBITDA



(in thousands)

	Three Months Ended March 31,		
	2020	2019	% Change
<b>Net Income</b>	<b>\$3,332</b>	<b>\$6,603</b>	<b>(49.5)%</b>
Interest expense	3,486	3,158	10.4%
Income taxes	2,916	2,052	42.1%
Amortization of intangible assets	4,723	4,991	(5.4)%
Depreciation and other amortization	1,521	1,747	(12.9)%
<b>EBITDA</b>	<b>15,978</b>	<b>18,551</b>	<b>(13.9)%</b>
Acquisition and CEO transition costs	—	1,121	
Earn-out adjustment	301	—	
Loss on sale of a business entity and certain assets	7,536	—	
Gain on sale of property	(1,108)	—	
<b>Adjusted EBITDA</b>	<b>\$22,707</b>	<b>\$19,672</b>	<b>15.4%</b>

# GAAP TO NON-GAAP RECONCILIATIONS

## Segment EBITDA and Adjusted EBITDA



(in thousands)

	Three Months Ended March 31,		
	2020	2019	% Change
Aviation:			
<b>Operating Income</b>	<b>(\$1,880)</b>	<b>\$3,048</b>	<b>(161.7)%</b>
Depreciation and Amortization	3,066	3,230	(5.1)%
<b>EBITDA</b>	<b>\$1,186</b>	<b>\$6,278</b>	<b>(81.1)%</b>
Loss on sale of a business entity and certain assets	7,536	—	
Gain on sale of property	(1,108)	—	
<b>Adjusted EBITDA</b>	<b>\$7,614</b>	<b>\$6,278</b>	<b>21.3%</b>
Fleet:			
<b>Operating Income</b>	<b>\$6,906</b>	<b>\$6,988</b>	<b>(1.2)%</b>
Depreciation and Amortization	2,672	2,794	(4.4)%
<b>EBITDA and Adjusted EBITDA</b>	<b>\$9,578</b>	<b>\$9,782</b>	<b>(2.1)%</b>
Federal & Defense:			
<b>Operating Income</b>	<b>\$4,924</b>	<b>\$3,385</b>	<b>45.5%</b>
Depreciation and Amortization	739	848	(12.9)%
<b>EBITDA and Adjusted EBITDA</b>	<b>\$5,663</b>	<b>\$4,233</b>	<b>33.8%</b>

# GAAP TO NON-GAAP RECONCILIATIONS

## Net Leverage Ratio



*(in thousands)*

	March 31,	
	2020	2019
Principal amount of debt	\$276,256	\$277,148
Less: Debt issuance costs	(2,556)	(2,001)
Less: Cash and cash equivalents	(543)	(829)
<b>Net Debt</b>	<b>\$273,157</b>	<b>\$274,318</b>
<b>TTM Adjusted EBITDA<sup>(1)</sup></b>	<b>93,646</b>	<b>79,946</b>
<b>Net Leverage Ratio</b>	<b>2.9x</b>	<b>3.4x</b>

(1) TTM Adjusted EBITDA is defined as Adjusted EBITDA for the most recent twelve (12) month period ending March 31, 2020 and March 31, 2019, respectively.



# VSE Corporation Investor Presentation

May 2020



# CORPORATE PROFILE

Pure-Play Aftermarket and MRO Services Company





## AVIATION

### Distribution & MRO Services

- » **Aftermarket** repair and distribution services to commercial, cargo, general aviation, military/defense and rotorcraft customers globally
- » Supply chain and parts distribution
- » Maintenance, repair and overhaul (MRO) services
- » Component and engine accessory maintenance
- » Rotable exchanges and sales



## FLEET

### Distribution & Fleet Services

- » **Aftermarket** support, parts supply, inventory management, e-commerce fulfillment for medium- and heavy-duty truck/fleet owners
- » Customized fleet logistics
- » Parts distribution and warehousing
- » Just-in-Time supply chain management
- » Kitting; alternative product sourcing
- » Engineering and technical support



## FEDERAL & DEFENSE

### Logistics & Sustainment Services

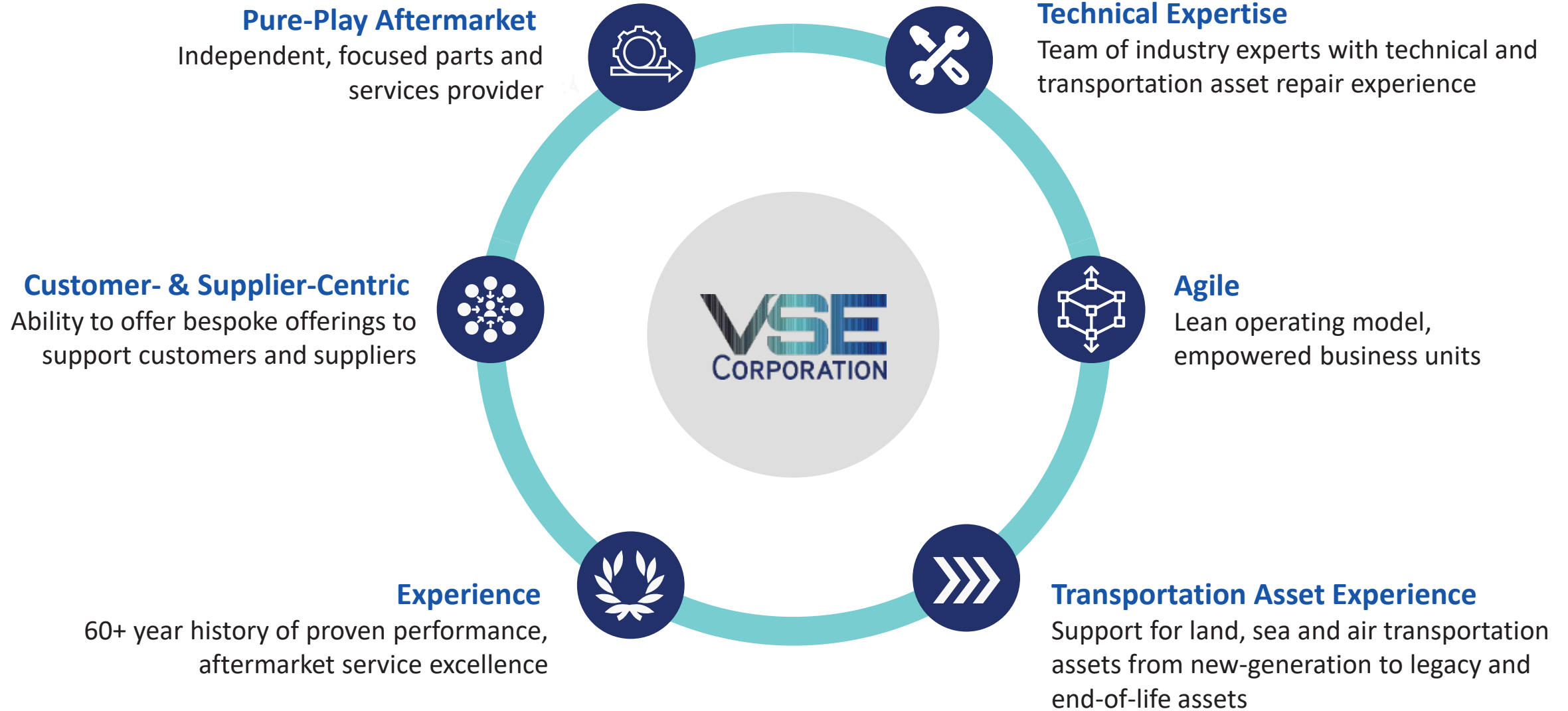
- » **Aftermarket** maintenance, repair and overhaul (MRO) and logistics for military vehicles, ships and aircraft for federal and defense agencies
- » Base operations support (BOS)
- » Procurement and supply chain management
- » Aircraft, vehicle and marine sustainment services
- » IT services and energy consulting

**100% Aftermarket Services**

**62% Government + 38% Commercial Customer Mix in Q1 2020**

# STRATEGIC OVERVIEW

Our Unique Value Proposition



# STRATEGIC OVERVIEW

Roadmap for Growth



## Organic Growth Factors

- Increase market penetration of new/existing accounts
- Geographic expansion outside North America
- Targeted growth of new product additions
- Expand repair, logistic and capability service offering
- Focus on select, higher margin offerings

## Inorganic Growth Requirements

Focused, disciplined acquisition strategy targeting:

- Product, customer, service or geographic expansion
- Full integration into existing business segment
- Financially accretive approach and process
- Net leverage neutral acquisitions

# AVIATION SEGMENT OVERVIEW

## AVIATION

Providing aftermarket MRO and distribution services to commercial, cargo, business and general aviation, military/defense and rotorcraft customers globally.

Offerings include:

1. Parts distribution and supply chain services
2. Component and engine accessory maintenance
3. Maintenance, repair and overhaul (MRO) services
4. Rotable exchanges and sales



## Key Customers



# AVIATION SEGMENT STRATEGY

## >> INDEPENDENCE

Niche single-source aftermarket focus with only repair and distribution capabilities

## >> AGILITY

Organization structure provides rapid response, reliable support and bespoke support for customers and OEM supplier partners

## >> TECHNICAL EXPERTISE

Distribution and MRO product knowledge to support OEM product lines with application focus and repair with in-house testing and technical expertise

## >> INVENTORY & PLANNING

Right-sized inventory forecasting model to capture unplanned aftermarket demand for parts supply, rotables and repair



**WHY WE  
WIN**

# AVIATION SEGMENT STRATEGY

## >> MRO CAPABILITY DEVELOPMENT

New MRO offerings to support broadest range of aircraft components and engine accessory repair; specifically in fuel and hydraulics, engine components and accessories, interiors, auxiliary power units (APU), avionics

## >> DISTRIBUTION PRODUCT EXPANSION

New proprietary OEM product additions to support aftermarket airframe, engine and interior platforms

## >> INTERNATIONAL EXPANSION

Expansion in core aerospace markets for MRO and distribution

## >> NEW CUSTOMERS

Market share gain for existing MRO and distribution capabilities with new Commercial and B&GA customers, and new market expansion into aerospace defense markets



# GROWTH FACTORS

# FLEET SEGMENT OVERVIEW

## FLEET *(formerly Supply Chain Management Group)*

Providing parts, sourcing, inventory management, e-commerce fulfillment, logistics, supply chain management and other services to federal and commercial aftermarket truck and fleet owners.

Offerings include:

1. High-duty cycle, medium- and heavy-duty vehicle parts distribution
2. Just-in-Time supply chain management
3. Customized fleet logistics and IT solutions
4. Technical support, engineering, sourcing, warehousing and kitting



## Key Customers





# FLEET SEGMENT STRATEGY

## >> UNIQUE MARKET OFFERING

Stocking Distributor + Technology Solutions + Consigned Parts Provider

## >> NICHE CUSTOMER FOCUS

Medium to large, high-duty cycle, delivery and vocational fleets;  
500,000 stocking SKUs and 700+ manufacturers represented

## >> PROPRIETARY INVENTORY MANAGEMENT

Just-in-Time inventory and fleet management software and systems

## >> TECHNICAL CAPABILITIES

Reverse engineering, design analysis, rapid prototyping, short-run  
production and in-house testing

## >> PRIVATE LABEL PARTS

Customized engineered solutions, alternatives for out of service  
product, and quality sourced at tier one level

**WHY WE  
WIN**

# FLEET SEGMENT STRATEGY

## >> CUSTOMER DIVERSIFICATION

Expansion of commercial customer base to support new medium to large, high-duty cycle fleet customers

## >> SHARE OF WALLET EXPANSION

Product expansion to existing Just-in-Time clients

## >> MAINTAIN THE CORE

Continue to support USPS fleet and DoD vehicle parts

## >> PRODUCT EXPANSION

Addition of both new product offerings and growth in private label product

## >> GEOGRAPHIC EXPANSION

Geographic expansion beyond Northeast United States



# GROWTH FACTORS

# FEDERAL & DEFENSE SEGMENT OVERVIEW

## FEDERAL & DEFENSE *(formerly Federal Services Group)*

Providing aftermarket maintenance, repair and overhaul (MRO) and logistics services to improve operational readiness and the useful life of military vehicles, marine vessels and aircraft for the U.S. armed forces, federal agencies and international defense customers.

Offerings include:

1. Equipment maintenance, repair and overhaul services
2. Base operations support
3. Transportation and freight services
4. Logistics, procurement and supply chain support
5. Engineering and technical solutions
6. IT and Energy consulting services

## Key Customers



# FEDERAL & DEFENSE SEGMENT STRATEGY

## >> PAST PERFORMANCE

60+ year history of program execution and past performance across all land, sea and air transportation platforms

## >> INDUSTRY EXPERTISE

Technical, subject matter-experienced team with extensive repair knowledge to support difficult-to-maintain assets

## >> LEGACY ASSET SPECIALIST

Product sourcing, supply chain and logistics for legacy and end of lifecycle assets

## >> EXTENSIVE CAPBILITIES

Diverse capability offering to support programs from base operations support to supply chain and repair, IT and consulting

## >> CAPABLITIY CUSTOMIZATION

Partnering with customers for tailor-made solutions aligned with their specific mission needs



WHY WE  
WIN

# FEDERAL & DEFENSE SEGMENT STRATEGY

## >> INVESTMENT

Expand core business development and contracting solutions to increase share of budget with current and new customers

## >> LEVERAGE CORE COMPETENCY

Expand base operations support for U.S. Air Force, U.S. Army and U.S Navy

## >> MARKET EXPANSION

Increase military aviation services with product/supply chain and repair services; transition toward higher mix of fixed-price contracts

## >> CAPABILITY DEVELOPMENT

Broaden DoD logistics/supply chain offering to support market demand

## >> INTERNATIONAL GROWTH

Utilize success in foreign markets to support foreign military sales opportunities

## >> CONSULTING EXPANSION

IT and Energy consulting services growth



**GROWTH  
FACTORS**

# INVESTMENT OPPORTUNITY

Diversified Aftermarket/MRO Play with Stable End-Market Exposure



## Experience

60+ years of aftermarket experience and service excellence supporting 80% re-compete success rate on multi-year government contracts

## Leadership

New CEO from KLX-Boeing, public-company experienced growth leader; Chairman is former Commander-in-Chief, NORAD & U.S. Northern Command

## Balance

Stable, balanced customer mix; ~60% stable government revenue balanced with ~40% higher-margin potential commercial customers

## Agile

Entrepreneurial and decentralized organization aligned to support customers, suppliers and shareholders

## Focused

Shift toward leveraging core competencies to support customer, product and service organic growth opportunities

## Well-Capitalized

Efficient capital structure and liquidity to support growth; managing net leverage below 3x

# VSE CORPORATION

