



NEWS RELEASE

# Vectrus Announces Strong First Quarter 2021 Results

5/11/2021

- Revenue of \$434 million up 23% yr/yr
- Adjusted EBITDA margin<sup>1</sup> of 4.8%, an increase of 60 bps yr/yr
- First quarter fully diluted EPS of \$1.02; Adjusted diluted EPS<sup>1</sup> adding back acquisition related amortization, increased 46% yr/yr to \$1.20
- Integration and performance of recent acquisitions on track
- Increasing low-end and mid-point of 2021 guidance

COLORADO SPRINGS, Colo., May 11, 2021 /PRNewswire/ -- Vectrus, Inc. (NYSE:VEC) announced first quarter 2021 financial results.

"Vectrus reported strong first quarter results driven by the continued momentum in the execution of our strategy," said Chuck Prow, Chief Executive Officer of Vectrus.

"During the quarter, revenue grew 23% year-over-year, with organic growth of 4%," said Prow. "Revenue growth was driven by our recent acquisitions, continued phase-in of LOGCAP V, as well as the progress made in executing growth in our core programs. Additionally, adjusted EBITDA margin increased 60 basis points year-over-year."

"Our growth-related activities and efforts to make Vectrus the premier converged infrastructure company continue to experience positive momentum," said Prow. "During the quarter Vectrus was awarded the CBRN integrated defense prime OTA contract, which was based on our well-known capabilities in sensor integration, Internet of Things, and perimeter security solutions. The award is valued at \$19 million over two years and extends Vectrus' IoT, machine learning and data analytics offerings. This effort is co-sponsored between the DoD and Department of Homeland Security and provides sensor integration as well as data integration and analysis related to threat

detection domestically. This program brings our digitally integrated solutions, that were originally deployed overseas, to the U.S. to support protection of the Homeland. We are pleased to have been selected for such an important mission and look forward to the opportunity to bring our unique and differentiated solutions utilized by the DoD to a new client and market. This work is illustrative of how Vectrus is building capabilities and inserting technology to deliver a more integrated and comprehensive suite of solutions in support of the converged infrastructure market."

Prow continued, "We are also continuing to execute our IDIQ portfolio by leveraging our converged solutions, geographic footprint, and ability to provide complex mission-critical IT services. During the quarter, we won a \$22 million five-year task order under the Army's ITES-3S IDIQ to provide enterprise IT services to the U.S. Army Corp of Engineers across Europe. This is an important win for Vectrus which leverages the more than 30 years of experience we have in providing a full range of operations and maintenance, IT support and supply services with our Army OPMAS-E contract in Europe. This task order provides Vectrus with an opportunity to grow its' presence in support of the 37,000 U.S. Army Corp of Engineers civilians and soldiers that are delivering vital engineering services in over 130 countries worldwide."

"Last quarter we completed two strategic acquisitions that added key clients, capabilities, and accelerated our converged infrastructure strategy," said Prow. "The integration of these acquisitions is well underway and on track with our plan. We remain excited about the talent, combined capabilities, and opportunities for accelerated growth."

"Regarding LOGCAP V, we continue to phase-in and anticipate being at full operational capability in Iraq by June," said Prow. "In terms of INDOPACOM, the phase-in process remains elongated due to base access restrictions associated with COVID-19; but we continue to anticipate phase-in later this year with full operational capability in early 2022."

## First Quarter 2021 Results

First quarter 2021 revenue of \$434.0 million was up \$82.3 million dollars year on year or 23.4% as compared to the same period last year. Revenue grew by \$68.9 million year on year as a result of the companies' two acquisitions on December 31, 2020 and grew \$13.4 million organically.

Operating income was \$16.5 million or 3.8% margin in the first quarter of 2021. Adjusted operating income<sup>1</sup> was \$19.1 million or 4.4% margin.

EBITDA<sup>1</sup> was \$20.5 million or 4.7% margin and Adjusted EBITDA<sup>1</sup> was \$20.7 million or 4.8% margin for the first quarter of 2021. Margin improved by 60 basis points for both EBITDA and Adjusted EBITDA due to the company's

two acquisitions and improved operating performance.

Fully diluted EPS for the first quarter of 2021 was \$1.02 as compared to \$0.74 cents in the same period last year. Adjusted diluted EPS<sup>1</sup>, which adds back amortization of acquired intangible assets, was \$1.20 for the quarter, as compared to \$0.82 cents in the prior year. The improvement in EPS is due to the company's two acquisitions, improved operating performance, and lower tax expense.

"Our first quarter results demonstrate that our strategic execution is resulting in a more capable and diverse company," said Susan Lynch, Senior Vice President and Chief Financial Officer. "For example, our revenue with the Navy now comprises 13% of total revenue compared to 4% during the same time last year. Our geographic and contract mix have also diversified."

Lynch continued, "We are very pleased with our first quarter operating performance, the contributions from our recent December 31, 2020 acquisitions, and our overall progress in becoming a higher value, growth-oriented platform. We expect to continue to derive synergies from our acquisitions on both the top and bottom line while achieving greater operational efficiencies from our new ERP systems."

Cash used in operating activities through April 2, 2021 was \$21.7 million and was a result of timing and the strong cash performance in the fourth quarter of 2020.

Net debt at April 2, 2021 was \$138.7 million, up \$100.9 million from April 3, 2020 due to the acquisitions of Zenetex and HHB on December 31, 2020. Total debt at April 2, 2021 was \$177.0 million, down \$7 million from \$184.0 million at April 3, 2020. Cash at quarter-end was \$38.3 million. Total consolidated indebtedness to consolidated EBITDA<sup>1</sup> (total leverage ratio) was 2.0x.

Total backlog as of April 2, 2021 was \$4.5 billion and funded backlog was \$0.9 billion. The trailing twelve-month book-to-bill was 0.8x as of April 2, 2021.

### Increasing 2021 Guidance Mid-Point

Lynch continued, "In light of our strong first quarter performance we are increasing the low-end of the guidance range." Guidance for 2021 is as follows:

\$ millions, except for EBITDA margins and per share amounts	Previous 2021 Guidance	Updated 2021 Guidance	Updated 2021 Mid-Point
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Revenue	\$1,645 to \$1,715	\$1,680 to \$1,715	\$1,698
Adjusted EBITDA Margin <sup>1</sup>	4.6% to 5.0%	4.8% to 5.0%	4.9%
Adjusted Diluted Earnings Per Share <sup>1</sup>	\$4.25 to \$4.85	\$4.55 to \$4.85	\$4.70
Net Cash Provided by Operating Activities	\$55.0 to \$65.0	\$58.0 to \$65.0	\$61.5

Forward-looking statements 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.

## First Quarter 2021 Conference Call

Management will conduct a conference call with analysts and investors at 4:30 p.m. ET on Tuesday, May 11, 2021. U.S.-based participants may dial in to the conference call at 877-407-0792, while international participants may dial 201-689-8263. For all other listeners, a live webcast of the conference call will be available on the Vectrus Investor Relations website at <http://investors.vectrus.com> or <https://www.webcaster4.com/Webcast/Page/1431/41306>. An accompanying slide presentation will also be available on the Vectrus Investor Relations website.

A replay of the conference call will be posted on the Vectrus website shortly after completion of the call and will be available for one year. A telephonic replay will also be available through May 25, 2021, at 844-512-2921 (domestic) or 412-317-6671 (international) with passcode 13719138.

### Footnotes:

<sup>1</sup> See "Key Performance Indicators and Non-GAAP Financial Measures" for reconciliation.

## About Vectrus

Vectrus is a leading provider of global service solutions 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 integration services primarily 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 its clients' mission success. Vectrus is headquartered in Colorado Springs, Colo., and includes about 9,200 employees spanning 206 locations in 27 countries. In 2020, Vectrus generated sales of \$1.4 billion. To learn about career opportunities at Vectrus, visit [www.vectrus.com/careers](http://www.vectrus.com/careers). For more information, visit the company's website at [www.vectrus.com](http://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, all of the statements and items listed in the table in "2021 Guidance" above and other assumptions contained therein for purposes of such guidance, other statements about our 2021 performance outlook, five-year growth plan, revenue, DSO, contract opportunities, the potential impact of COVID-19, 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.

These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside our management's control, that could cause actual results to differ materially from the results discussed in the forward-looking statements. For a discussion of some of the risks and important factors that could cause actual results to differ from such forward-looking statements, see the risks and other factors detailed from time to time our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other filings with the U.S. 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.

### CONTACT:

Vectrus

Mike Smith, CFA

719-637-5773

[mike.smith@vectrus.com](mailto:mike.smith@vectrus.com)

VECTRUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended

(In thousands, except per share data)	Three Months Ended	
	April 2, 2021	April 3, 2020
Revenue	\$ 434,004	\$ 351,734
Cost of revenue	393,648	319,693
Selling, general, and administrative expenses	23,823	19,558
Operating income	16,533	12,483
Interest expense, net	(1,932)	(1,703)
Income from operations before income taxes	14,601	10,780
Income tax expense	2,553	2,112
Net income	\$ 12,048	\$ 8,668
Earnings per share		
Basic	\$ 1.03	\$ 0.75
Diluted	\$ 1.02	\$ 0.74
Weighted average common shares outstanding - basic	11,648	11,545
Weighted average common shares outstanding - diluted	11,827	11,745

VECTRUS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

April 2,

December 31,

(In thousands, except share information)

2021

2020

Assets

Current assets		
	\$	\$
Cash and cash equivalents	38,347	66,949
Restricted cash	1,778	1,778
Receivables	359,182	314,959
Other current assets	27,319	24,702
Total current assets	426,626	408,388
Property, plant, and equipment, net	21,410	22,573
Goodwill	315,401	339,702
Intangible assets, net	71,254	48,105
Right-of-use assets	20,802	18,718
Other non-current assets	6,839	6,325
Total non-current assets	435,706	435,423
Total Assets	\$ 862,332	\$ 843,811

Liabilities and Shareholders' Equity

Current liabilities		
	\$	\$
Accounts payable	197,447	159,586
Compensation and other employee benefits	56,349	79,568
Short-term debt	9,200	8,600
Other accrued liabilities	41,249	40,657
Total current liabilities	304,245	288,411
Long-term debt, net	166,383	168,751
Deferred tax liability	41,999	39,386
Other non-current liabilities	35,239	42,325
Total non-current liabilities	243,621	250,462
Total liabilities	547,866	538,873
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; 11,700,232 and 11,624,717 shares issued and outstanding as of April 2, 2021 and December 31, 2020, respectively

	117	116
	82,735	82,823
Additional paid in capital	234,074	222,026
Retained earnings	(2,460)	(27)
Accumulated other comprehensive loss	—	—
Total shareholders' equity	314,466	304,938
Total Liabilities and Shareholders' Equity	\$ 862,332	\$ 843,811

## VECTRUS, INC.

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended	
	April 2, 2021	April 3, 2020
Operating activities		
	\$ 12,048	\$ 8,668
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,548	996
Amortization of intangible assets	2,450	1,015
Loss on disposal of property, plant, and equipment	43	—
Stock-based compensation	2,622	2,367
Amortization of debt issuance costs	232	99
Changes in assets and liabilities:		
Receivables	(46,544)	3,942
Other assets	(3,785)	(5,715)
Accounts payable	42,054	(162)
	2,716	(1,522)

Deferred taxes	(22,818)	(9,733)
Compensation and other employee benefits	(12,295)	1,182
Other liabilities	<u>(21,729)</u>	<u>1,137</u>
Net cash (used in) provided by operating activities	<u>                    </u>	<u>                    </u>
Investing activities		
	(2,611)	(917)
Purchases of capital assets	<u>(2,611)</u>	<u>(917)</u>
Net cash (used in) investing activities	<u>                    </u>	<u>                    </u>
Financing activities		
	(2,000)	(1,500)
Repayments of long-term debt	110,000	144,000
Proceeds from revolver	(110,000)	(29,000)
Repayments of revolver	113	1
Proceeds from exercise of stock options	(2,184)	(1,787)
Payments of employee withholding taxes on share-based compensation	<u>(4,071)</u>	<u>111,714</u>
Net cash (used in) provided by financing activities	<u>                    </u>	<u>                    </u>
Exchange rate effect on cash	(191)	(1,080)
Net change in cash, cash equivalents and restricted cash	<u>(28,602)</u>	<u>110,854</u>
Cash, cash equivalents and restricted cash-beginning of year	68,727	35,318
Cash, cash equivalents and restricted cash-end of period	<u>\$ 40,125</u>	<u>\$ 146,172</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,371	\$ 1,469
Income taxes (refunded) paid	<u>\$ (97)</u>	<u>\$ 36</u>
Purchase of capital assets on account	<u>\$ (132)</u>	<u>\$ (606)</u>

## Key Performance Indicators and 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. Management believes that these financial performance measures are the primary drivers for our earnings and net cash from operating activities. Management evaluates its contracts and business performance by focusing on revenue, operating income and operating margin. Operating income

represents revenue less both cost of revenue and selling, general and administrative (SG&A) expenses. Cost of revenue consists of labor, subcontracting costs, materials, and an allocation of indirect costs, which includes service center transaction costs. SG&A expenses consist of indirect labor costs (including wages and salaries for executives and administrative personnel), bid and proposal expenses and other general and administrative expenses not allocated to cost of revenue. We define operating margin as operating income divided by revenue.

We manage the nature and amount of costs at the program level, which forms the basis for estimating our total costs and profitability. This is consistent with our approach for managing our business, which begins with management's assessing the bidding opportunity for each contract and then managing contract profitability throughout the performance period.

In addition to the key performance measures discussed above, we consider adjusted operating income, adjusted operating margin, adjusted net income, adjusted diluted earnings per share, EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, and organic revenue to be useful to management and investors in evaluating our operating performance, 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. We provide this information to our investors in our earnings releases, presentations and other disclosures.

Adjusted operating income, adjusted operating margin, adjusted net income, adjusted diluted earnings per share, EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, and organic revenue, however, are not measures of financial performance under GAAP and should not be considered a substitute for operating income, operating margin, net income and diluted earnings per share as determined in accordance with GAAP. Definitions and reconciliations of these items are provided below.

- Adjusted operating income is defined as operating income, adjusted to exclude items that may include, but are not limited to significant charges or credits, and unusual and infrequent non-operating items, such as M&A transaction and LOGCAP V pre-operational legal costs, and amortization of acquired intangible assets that impact current results but are not related to our ongoing operations.
- Adjusted operating margin is defined as adjusted operating income divided by revenue.
- Adjusted net income is defined as net income, adjusted to exclude items that may include, but are not limited to, significant charges or credits, and unusual and infrequent non-operating items, such as M&A transaction and LOGCAP V pre-operational legal costs, and amortization of acquired intangible assets that impact current results but are not related to our ongoing operations.
- Adjusted diluted earnings per share 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.
- Adjusted EBITDA is defined as EBITDA, adjusted to exclude items that may include, but are not limited to, significant charges or credits and unusual and infrequent non-operating items, such as M&A transaction and LOGCAP V pre-operational legal costs that impact current results but are not related to our ongoing operations.
- EBITDA margin is defined as EBITDA divided by revenue.
- Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue.
- Organic revenue is defined as revenue, adjusted to exclude revenue from acquired companies.

Adjusted Net Income, Adjusted Diluted Earnings Per Share (Non-GAAP Measures)

(\$ in thousands, except per share data)	Three Months Ended April 2, 2021 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Amortization of Acquired Intangible Assets	Three Months Ended April 2, 2021 As Reported - Adjusted
Revenue	\$ 434,004	\$ —	\$ —	\$ —	\$ 433,004
Growth	23.4 %				23.4 %
Operating income	16,533	—	157	2,450	19,140
Operating margin	3.8 %				4.4 %
Interest expense, net	(1,932)	—	—	—	(1,932)
Income from operations before income taxes	\$ 14,601	\$ —	\$ 157	\$ 2,450	\$ 17,208
Income tax expense	2,553	—	27	428	3,008
Income tax rate	17.5 %				17.5 %
Net income	\$ 12,048	\$ —	\$ 130	\$ 2,022	\$ 14,200
Weighted average common shares outstanding, diluted	11,827				11,827
Diluted earnings per share	\$ 1.02	\$ —	\$ 0.01	\$ 0.17	\$ 1.20

EBITDA (Non-GAAP Measures)					
(\$ in thousands)	Three Months Ended April 2, 2021 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Amortization of Acquired Intangible Assets	Three Months Ended April 2, 2021 As Reported - Adjusted
Operating Income	\$ 16,533	\$ —	\$ 157	\$ 2,450	\$ 19,140
Add:					
Depreciation and amortization	3,998	—	—	(2,450)	1,548
EBITDA	\$ 20,531	\$ —	\$ 157	\$ —	\$ 20,688
EBITDA Margin	4.7 %				4.8 %

Adjusted Net Income, Adjusted Diluted Earnings Per Share (Non-GAAP Measures)

(\$ in thousands, except per share data)	Three Months Ended April 3, 2020 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Amortization of Acquired Intangible Assets	Three Months Ended April 3, 2020 As Reported - Adjusted
Revenue	\$ 351,734	\$ —	\$ —	\$ —	\$ 351,734
Operating income	\$ 12,483	\$ —	\$ 141	\$ 1,015	\$ 13,639
Operating margin	3.5 %				3.9 %
Interest expense, net	\$ (1,703)	\$ —	\$ —	\$ —	\$ (1,703)
Income from operations before income taxes	\$ 10,780	\$ —	\$ 141	\$ 1,015	\$ 11,936
Income tax expense	\$ 2,112	\$ —	\$ 28	\$ 171	\$ 2,311



Revenue	\$	351,734	\$	—	\$	351,734
Organic Revenue \$					\$	13,401
Organic Revenue %						3.8 %

## SUPPLEMENTAL INFORMATION

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

### Revenue by Client

(In thousands)	Three Months Ended			
	April 2,		April 3,	
	2021	%	2020	%
Army	\$ 257,349	59 %	\$ 247,555	70 %
Air Force	78,170	18 %	73,341	21 %
Navy	56,427	13 %	15,237	4 %
Other	42,058	10 %	15,601	5 %
Total revenue	\$ 434,004		\$ 351,734	

### Revenue by Contract Type

(In thousands)	Three Months Ended			
	April 2,		April 3,	
	2021	%	2020	%
Cost-plus and cost-reimbursable <sup>1</sup>	\$ 305,247	70 %	\$ 256,319	73 %
Firm-fixed-price	128,757	30 %	95,415	27 %
Total revenue	\$ 434,004		\$ 351,734	

<sup>1</sup> Includes time and material contracts

## Revenue by Contract Relationship

(In thousands)	Three Months Ended			
	April 2,		April 3,	
	2021	%	2020	%
Prime contractor	\$ 403,262	93 %	\$ 333,393	95 %
Subcontractor	30,742	7 %	18,341	5 %
Total revenue	\$ 434,004		\$ 351,734	

## Revenue by Geographic Region

(In thousands)	Three Months Ended			
	April 2,		April 3,	
	2021	%	2020	%
Middle East	\$ 241,813	56 %	\$ 237,937	68 %
United States	151,582	35 %	81,469	23 %
Europe	40,609	9 %	32,328	9 %
Total revenue	\$ 434,004		\$ 351,734	

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