



NEWS RELEASE

Vectrus Announces Third Quarter 2020 Results

11/10/2020

- Q3 revenue of \$352.4 million, +4.9% sequentially; COVID-19 adversely impacted revenue by \$12.9 million or 3.7% year-on-year
- Q3 diluted EPS of \$0.88; Adjusted diluted EPS(1) of \$0.89, COVID-19 adversely impacted EPS by \$0.14
- Adjusted EBITDA margin(1) of 4.8%, driven by ongoing performance initiatives
- Robust backlog of \$3.7 billion; 1.5x TTM book-to-bill
- Reiterating 2020 guidance

COLORADO SPRINGS, Colo., Nov. 10, 2020 /PRNewswire/ -- Vectrus, Inc. (NYSE:VEC) announced third quarter 2020 financial results for the quarter ended October 2, 2020.

"Third quarter results were solid, reflecting improved volumes and margin levels," said Chuck Prow, president and chief executive officer. "In addition, we continued to execute well on our growth strategy on all fronts, particularly with respect to diversifying our revenue streams and advancing our leadership position in the converged infrastructure market. For example, we were recently awarded a contract to support Navy Smart Warehouse Prototype 5G Applications. While modest in size, this prime contract is the result of our deliberate, strategic and transformational investment in expanding our capabilities at the intersection of traditional infrastructure and integrated digital services. We were also recently awarded a position on a "Best in Class" General Services Administration multi-year, multiple award, IDIQ contract vehicle, allowing access to a funding stream that is new to us and affords additional avenues of organic growth.

"For the remainder of the year, we are focused on delivering on all of our programs while keeping our teams and our clients safe; growing our pipeline of opportunities in the converged infrastructure market; and pursuing strategic M&A," said Prow. "I want to thank our entire work force for their continued dedication, fortitude, and

resourcefulness every day as we face the ongoing global pandemic."

Third Quarter 2020 Results

Third quarter 2020 revenue of \$352.4 million was down slightly year on year by 2.1% mainly due to COVID-19 pandemic related deferrals of \$12.9 million or 3.7% due to base access restrictions. Revenue was up \$16.4 million sequentially or 4.9%.

For the third quarter 2020, operating income was \$14.8 million or 4.2% margin. Adjusted operating income¹ was \$15.0 million or 4.3% margin. Adjusted operating income¹ was adversely impacted by the COVID-19 deferral of high-margin revenue due to base access restrictions into future periods of \$2.1 million which had a 40-basis point impact to adjusted operating margin¹.

EBITDA¹ was \$16.9 million or 4.8% margin for the third quarter 2020, compared to \$14.1 million or 3.9% margin in the third quarter 2019. Adjusted EBITDA¹ was \$17.0 million or 4.8% margin for the third quarter 2020, compared to \$14.7 million or 4.1% margin in the third quarter 2019. Adjusted EBITDA¹ was adversely impacted by COVID-19 of \$2.1 million, which had a 40-basis point impact to adjusted EBITDA margin¹.

Third quarter 2020 diluted EPS was \$0.88 compared to \$0.67 in the third quarter 2019. Adjusted diluted EPS¹ for the third quarter 2020 was \$0.89 compared to \$0.71 in the third quarter 2019. Adjusted diluted EPS¹ was adversely impacted due to COVID-19 by \$0.14.

"Third quarter adjusted EBITDA¹ margin of 4.8%, representing the second highest margin rate in the past ten quarters, an impressive accomplishment as EBITDA margin includes an estimated 40-basis points of COVID-19 impact," said Susan Lynch, senior vice president and chief financial officer. "Our margin reflects the strength of our underlying business and continued execution on our enterprise wide performance improvement initiatives. The rollout of our enterprise systems is progressing well, and we continue to invest in our team to support our growth. With less than one-times leverage and a strong liquidity position as well as a solid backlog, we are poised to weather the pandemic while continuing to support our long-term growth."

Cash provided by operating activities through October 2, 2020 was \$37.7 million, compared to net cash provided by operating activities of \$28.4 million year-to-date 2019. The increase year-to-date over prior year is mainly driven by the CARES Act employee payroll tax deferrals of approximately \$9.9 million.

Net debt at October 2, 2020 was \$2.3 million, down from \$35.2 million at December 31, 2019. Total debt at October 2, 2020 was \$66.0 million, down \$4.5 million from \$70.5 million at December 31, 2019. Cash at quarter-end was \$63.7 million, up \$28.4 million from \$35.3 million at December 31, 2019. As of October 2, 2020, the revolver, was

undrawn and combined with cash, results in total liquidity of more than \$180 million. Total consolidated indebtedness to consolidated EBITDA¹ (total leverage ratio) was 0.99x.

Total backlog as of October 2, 2020 was \$3.7 billion and funded backlog was \$1.0 billion. The trailing twelve-month book-to-bill was 1.5x as of October 2, 2020.

Reiterate 2020 Guidance

Lynch continued, "We expect the momentum experienced in the third quarter to continue for the remainder of the year and are reiterating our 2020 guidance."

\$ millions, except for EBITDA margins and per share amounts	2020 Guidance	
Revenue	\$1,385	to \$1,405
Adjusted EBITDA Margin ¹	4.0%	to 4.1%
Adjusted Diluted Earnings Per Share ¹	\$2.68	to \$2.82
Net Cash Provided by Operating Activities	\$45.0	to \$55.0

The Company notes that 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.

Third Quarter 2020 Conference Call

Management will conduct a conference call with analysts and investors at 4:30 p.m. ET on Tuesday, November 10, 2020. 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/1431/38350>. 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 November 24, 2020, at 844-512-2921

(domestic) or 412-317-6671 (international) with passcode 13712134.

Footnotes:

¹ 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 technology 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 7,100 employees spanning 148 locations in 26 countries and territories. In 2019, Vectrus generated sales of \$1.4 billion. 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, all of the statements and items listed in the table in "2020 Guidance" above and other assumptions contained therein for purposes of such guidance, other statements about our 2020 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.

VECTRUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 2, 2020	September 27, 2019	October 2, 2020	September 27, 2019
(In thousands, except per share data)				
Revenue	\$ 352,415	\$ 359,873	\$ 1,040,212	\$ 1,017,368
Cost of revenue	320,234	327,523	951,743	923,671
Selling, general, and administrative expenses	17,344	19,934	58,718	59,697
Operating income	14,837	12,416	29,751	34,000
Interest expense, net	(939)	(1,907)	(3,988)	(4,811)
Income from operations before income taxes	13,898	10,509	25,763	29,189
Income tax expense	3,507	2,668	5,593	6,657
Net income	\$ 10,391	\$ 7,841	\$ 20,170	\$ 22,532
Earnings per share				
Basic	\$0.89	\$0.68	\$1.74	\$1.97
Diluted	\$0.88	\$0.67	\$1.72	\$1.95
Weighted average common shares outstanding - basic	11,621	11,506	11,590	11,420
Weighted average common shares outstanding - diluted	11,751	11,678	11,743	11,566

VECTRUS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share information)	October 2, 2020	December 31, 2019
Assets	(Unaudited)	
Current assets	\$ 63,734	\$ 35,318
Cash	268,143	269,144
Receivables	24,537	16,154
Other current assets	356,414	320,616
Total current assets	19,256	18,844
Property, plant, and equipment, net	262,130	261,983
Goodwill	11,902	14,926
Intangible assets, net	9,970	14,654
Right-of-use assets	6,256	5,366
Other non-current assets	309,514	315,773
Total non-current assets	665,928	636,389
Total Assets	\$ 665,928	\$ 636,389
Liabilities and Shareholders' Equity		
Current liabilities	\$ 146,458	\$ 148,015
Accounts payable	54,216	53,155
Compensation and other employee benefits	8,000	6,500
Short-term debt	38,572	37,409
Other accrued liabilities	247,246	245,079
Total current liabilities	57,326	63,041
Long-term debt, net	41,734	49,407
Deferred tax liability	35,817	19,997
Other non-current liabilities	134,877	132,445
Total non-current liabilities	382,123	377,524
Total liabilities	382,123	377,524
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; 11,621,709 and 11,523,691 shares issued and outstanding as of October 2, 2020 and December 31, 2019, respectively	116	115
	81,589	78,757
Additional paid in capital	205,245	185,075
Retained earnings	(3,145)	(5,082)
Accumulated other comprehensive loss	(3,145)	(5,082)
Total shareholders' equity	<u>283,805</u>	<u>258,865</u>
Total Liabilities and Shareholders' Equity	<u>\$ 665,928</u>	<u>\$ 636,389</u>

VECTRUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended	
	October 2, 2020	September 27, 2019
Operating activities		
	\$ 20,170	\$ 22,532
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	3,001	2,395
Amortization of intangible assets	3,031	2,103
Loss on disposal of property, plant, and equipment	63	2
Stock-based compensation	6,499	5,952
Amortization of debt issuance costs	286	301
Changes in assets and liabilities:		
Receivables	3,584	(7,540)
Other assets	(8,826)	(5,820)
Accounts payable	(1,988)	(14,458)
	(7,575)	(4,670)

Deferred taxes	813	17,863
Compensation and other employee benefits	18,597	9,788
Other liabilities		
	<u>37,655</u>	<u>28,448</u>
Net cash provided by operating activities		
Investing activities		
	(3,348)	(14,440)
Purchases of capital assets and intangibles	—	5,400
Proceeds from the disposition of assets	—	(43,963)
Acquisition of business, net of cash acquired		
	<u>(3,348)</u>	<u>(53,003)</u>
Net cash (used in) investing activities		
Financing activities		
	(4,500)	(2,000)
Repayments of long-term debt	151,000	226,000
Proceeds from revolver	(151,000)	(226,000)
Repayments of revolver	59	3,467
Proceeds from exercise of stock options	(1,918)	(768)
Payments of employee withholding taxes on share-based compensation		
	<u>(6,359)</u>	<u>699</u>
Net cash (used in) provided by financing activities		
Exchange rate effect on cash	468	(1,239)
Net change in cash	<u>28,416</u>	<u>(25,095)</u>
Cash-beginning of year	35,318	66,145
Cash-end of period	<u>\$ 63,734</u>	<u>\$ 41,050</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,030	\$ 4,363
Income taxes paid	<u>\$ 12,570</u>	<u>\$ 5,076</u>
Non-cash investing activities:		
Purchase of capital assets on account	\$ 373	\$ 394

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 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, 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 October 2, 2020 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Three Months Ended October 2, 2020 As Reported - Adjusted
Revenue	\$ 352,415	\$ —	\$ —	\$ 352,415
Growth	(2.1) %			(2.1) %
Operating income	14,837	121	38	14,996
Operating margin	4.2 %			4.3 %
Interest expense, net	(939)	—	—	(939)
Income from operations before income taxes	\$ 13,898	\$ 121	\$ 38	\$ 14,057
Income tax expense	3,507	28	9	3,544
Income tax rate	25.2 %			25.2 %

Net income	\$ 10,391	\$ 93	\$ 29	\$ 10,513
Weighted average common shares outstanding, diluted	11,751			11,751
Diluted earnings per share	\$ 0.88	\$ 0.01	\$ —	\$ 0.89
EBITDA (Non-GAAP Measures)				
(\$ in thousands)	Three Months Ended October 2, 2020 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Three Months Ended October 2, 2020 As Reported - Adjusted
Operating Income	\$ 14,837	\$ 121	\$ 38	\$ 14,996
Add:				
Depreciation and amortization	2,033	—	—	2,033
EBITDA	\$ 16,870	\$ 121	\$ 38	\$ 17,029
EBITDA Margin	4.8 %			4.8 %

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

(\$ in thousands, except per share data)	Three Months Ended September 27, 2019 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Three Months Ended September 27, 2019 As Reported - Adjusted
Revenue	\$ 359,873	\$ —	\$ —	\$ 359,873
Operating income	12,416	420	197	13,033
Operating margin	3.5 %			3.6 %
Interest expense, net	(1,907)	—	—	(1,907)

Income from operations before income taxes	\$ 10,509	\$ 420	\$ 197	\$ 11,126
Income tax expense	2,668	104	49	2,821
Income tax rate	25.4 %			25.4 %
Net income	\$ 7,841	\$ 316	\$ 148	\$ 8,305
Weighted average common shares outstanding, diluted	11,678			11,678
Diluted earnings per share	\$ 0.67			\$ 0.71
EBITDA (Non-GAAP Measures)				
(\$ in thousands)	Three Months Ended September 27, 2019 As Reported	M&A Related Costs	LOGCAP V Pre-Operational Legal Costs	Three Months Ended September 27, 2019 As Reported - Adjusted
Operating Income	12,416	420	\$ 197	\$ 13,033
Add:				
Depreciation and amortization	1,683	—	—	1,683
EBITDA	\$ 14,099	\$ 420	\$ 197	\$ 14,716
EBITDA Margin	3.9 %			4.1 %

SUPPLEMENTAL INFORMATION

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

Revenue by Client

Three Months Ended

Nine Months Ended

(\$ In thousands)	October 2, 2020	% of Total	September 27, 2019	% of Total	October 2, 2020	% of Total	September 27, 2019	% of Total
Army	\$ 236,267	67 %	\$ 245,817	68 %	\$ 711,173	68 %	\$ 698,377	69 %
Air Force	79,425	23 %	86,576	24 %	231,088	22 %	227,100	22 %
Navy	18,785	5 %	13,344	4 %	48,564	5 %	45,227	4 %
Other	17,938	5 %	14,136	4 %	49,387	5 %	46,664	5 %
Total revenue	\$ 352,415		\$ 359,873		\$ 1,040,212		\$ 1,017,368	

Revenue by Contract Type

(\$ In thousands)	Three Months Ended				Nine Months Ended			
	October 2, 2020	% of Total	September 27, 2019	% of Total	October 2, 2020	% of Total	September 27, 2019	% of Total
Cost-plus and cost-reimbursable ¹	\$ 249,484	71 %	\$ 272,810	76 %	\$ 748,543	72 %	\$ 781,024	77 %
Firm-fixed-price	102,931	29 %	87,063	24 %	291,669	28 %	236,344	23 %
Total revenue	\$ 352,415		\$ 359,873		\$ 1,040,212		\$ 1,017,368	

¹ Includes time and material contracts

Revenue by Contract Relationship

(\$ In thousands)	Three Months Ended				Nine Months Ended			
	October 2, 2020	% of Total	September 27, 2019	% of Total	October 2, 2020	% of Total	September 27, 2019	% of Total
Prime contractor	\$ 332,564	94 %	\$ 334,402	93 %	\$ 980,301	94 %	\$ 954,191	94 %
Subcontractor	19,851	6 %	25,471	7 %	59,911	6 %	63,177	6 %
Total revenue	\$ 352,415		\$ 359,873		\$ 1,040,212		\$ 1,017,368	

Revenue by Geographic Region

(\$ In thousands)	Three Months Ended				Nine Months Ended			
	October 2, 2020	% of Total	September 27, 2019	% of Total	October 2, 2020	% of Total	September 27, 2019	% of Total
Middle East	\$ 224,934	64 %	\$ 244,142	68 %	\$ 679,633	65 %	\$ 695,626	68 %
United States	89,400	25 %	77,228	21 %	254,640	24 %	219,512	22 %

Europe	38,081	11 %	38,503	11 %	105,939	11 %	102,230	10 %
Total revenue	<u>\$ 352,415</u>		<u>\$ 359,873</u>		<u>\$ 1,040,212</u>		<u>\$ 1,017,368</u>	

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