



# INVESTOR PRESENTATION

Fourth Quarter and Full-Year 2019

# DISCLAIMER



## Forward-Looking Statements and Non-GAAP Financial Measures

This presentation 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 press release. 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 in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, 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, those identified in our reports filed with the Securities and Exchange Commission 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. 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.

Included in this presentation are certain non-GAAP financial measures, such as EBITDA, Adjusted EBITDA and net leverage ratio, designed to complement the financial information presented in accordance with U.S. GAAP because management believes such measures are useful to investors and management. Management believes these non-GAAP financial measures, when taken together with the corresponding GAAP measures, provide incremental insight into the underlying factors and trends affecting our performance. These non-GAAP financial measures should be considered only as supplemental to, and not superior to, financial measures provided in accordance with GAAP. Please refer to the appendix of this presentation for a reconciliation of the historical non-GAAP financial measures included in this presentation to the most directly comparable financial measures prepared in accordance with GAAP. Reconciliations of the non-GAAP measures used in this presentation are included or described in the tables attached to the appendix. Because GAAP financial measures on a forward-looking basis are not accessible, and reconciling information is not available without unreasonable effort, we have not provided reconciliations for forward-looking non-GAAP measures. For the same reasons we are unable to address the probable significance of the unavailable information, which could be material to future results. EBITDA represents net income before interest expense, income taxes, amortization of intangible assets and depreciation and other amortization. Adjusted EBITDA represents EBITDA (as defined above) adjusted for executive succession costs, including our CEO and Federal Services Group President transitions, 1st Choice Aerospace acquisition-related costs and the gain on sale of an IT contract. Net leverage ratio represents a ratio of Adjusted EBITDA to net debt (our total debt less cash and cash equivalents).

## OVERVIEW



Global Aftermarket Provider of Distribution/Repair Services For Land, Sea and Air Transportation Assets

### **Aviation Group** *30% of 2019 Revenue*

- > Provides parts supply and distribution, supply chain solutions, component and engine accessory repair services for global aftermarket commercial, business and general aviation customers

### **Supply Chain Management Group** *28% of 2019 Revenue*

- > Provides parts supply, inventory management, e-commerce fulfillment, logistics, data management and other services to support the United States Postal Service (USPS), United States Department of Defense, and commercial aftermarket high duty-cycle truck / fleet customers

### **Federal Services Group** *42% of 2019 Revenue*

- > Provides aftermarket refurbishment services to extend and maintain the life cycle of military vehicles, ships and aircraft for the U.S. Armed Forces, Federal Agencies and International Military and Defense customers; and provides energy consulting services, healthcare IT and IT data solutions

## EXECUTIVE SUMMARY – VSE Corporation

Fourth Quarter and Full-Year 2019



### VSE CORPORATION

**Total Revenue +7.9% y/y in 4Q2019;  
+7.9% y/y for Full-Year 2019**

- Broad-based growth in both services and products revenue in 4Q2019/2019

**Net Income +8.1% y/y in 4Q2019;  
+5.5% y/y for Full-Year 2019**

- 4Q19 diluted EPS of \$0.90
- Full-year 2019 diluted EPS of \$3.35

**Total Adjusted EBITDA +15.9% y/y in 4Q2019;  
+16.2% for Full-Year 2019**

- 4Q2019 and full-year 2019 EBITDA driven by organic and inorganic revenue/margin growth in Aviation and margin expansion in Federal Services, offset by lower contributions from Supply Chain Management

## EXECUTIVE SUMMARY – VSE Business Groups

Fourth Quarter and Full-Year 2019



### VSE BUSINESS GROUPS

**Aviation Group Revenue +42.3% y/y in 4Q2019;  
54.4% for Full-Year 2019**

- Excluding 1st Choice Aerospace acquisition, Aviation Group revenue organically increased 11% y/y in 2019, supported by growth in global distribution activity

**Supply Chain Group Revenue +1.5% y/y in 4Q2019;  
Flat for Full-Year 2019**

- Increased commercial market penetration offset modest decline in USPS revenue

**Federal Services Group Revenue (5.4%) y/y in 4Q2019;  
(7.0%) y/y for Full-Year 2019**

- Decrease due to anticipated reduced demand for services on U.S. Navy program and intentional shift toward less commoditized business

# GAAP FINANCIAL SUMMARY

Fourth Quarter and Full-Year 2019



## Stable Revenue Growth

- > Organic and acquisition revenue growth in Aviation offset by decline in Federal Services

## Margin Expansion

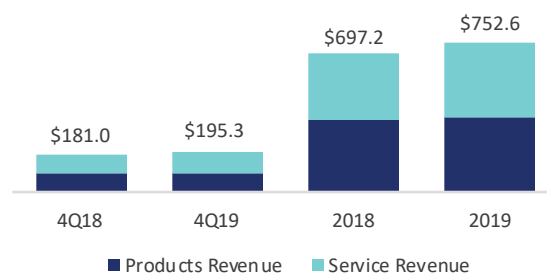
- > Operating margin increased 20 bps y/y to 8.0% in 2019

## Profitability

- > Net income increased 5.5% y/y in 2019

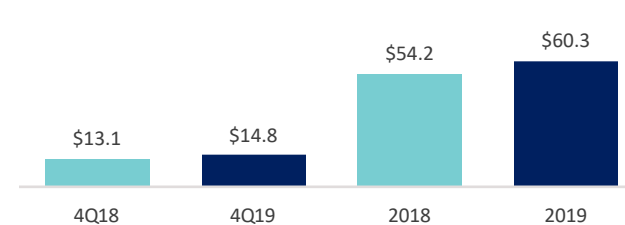
### Total Revenue

(\$MM)



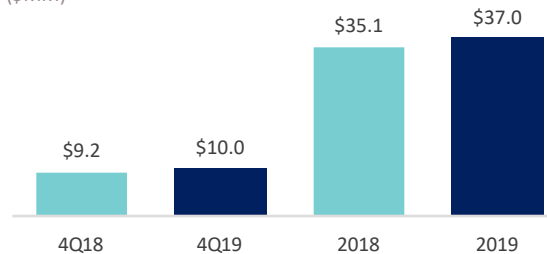
### Operating Income

(\$MM)



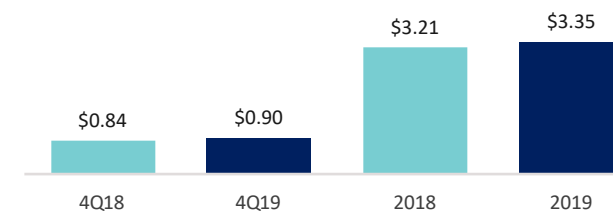
### Net Income

(\$MM)



### Diluted Earnings Per Share

(\$ Per Share)



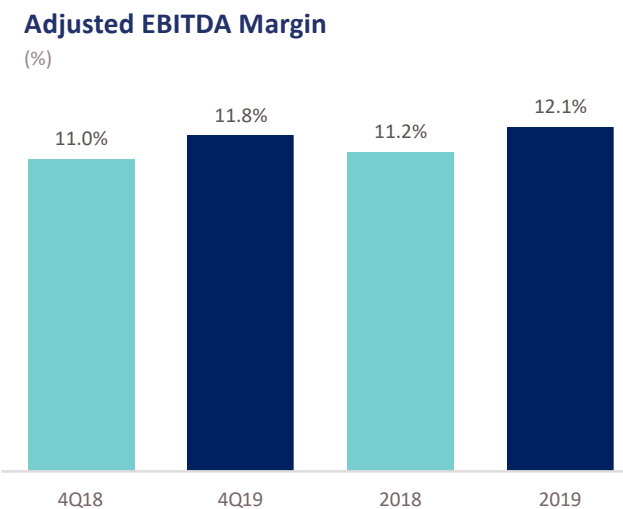
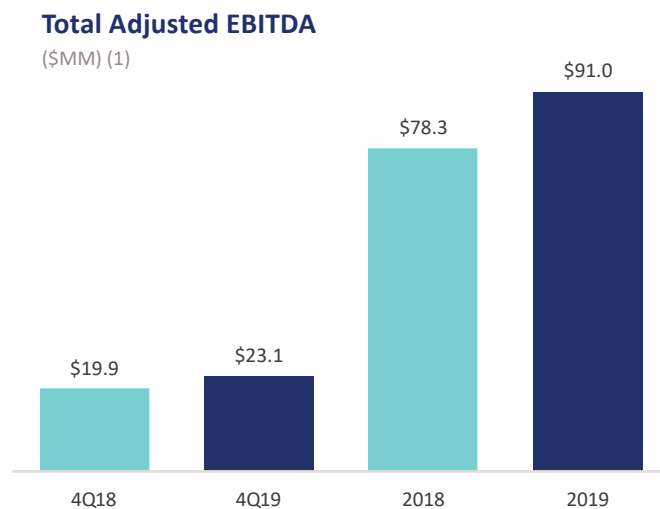
# NON-GAAP FINANCIAL SUMMARY

Fourth Quarter and Full-Year 2019



## Improved Margin Capture

- > Adjusted EBITDA margin increased in 4Q19 and 2019, 80 bps and 90 bps, respectively



(1) Adjusted EBITDA defined as net income before interest expense, income taxes, amortization of intangible assets and depreciation and other amortization; adjusted for executive succession costs, including our CEO and Federal Services Group President transitions, 1st Choice Aerospace acquisition-related costs and the gain on sale of an IT contract.

# 4Q 2018 vs. 4Q 2019 PERFORMANCE BRIDGE

Fourth Quarter and Full-Year 2019



## Core Business Remains Stable

- > Generated y/y revenue and EBITDA growth of 7.9% and 8.2%, respectively in 4Q2019

## Aviation Drove Revenue Growth

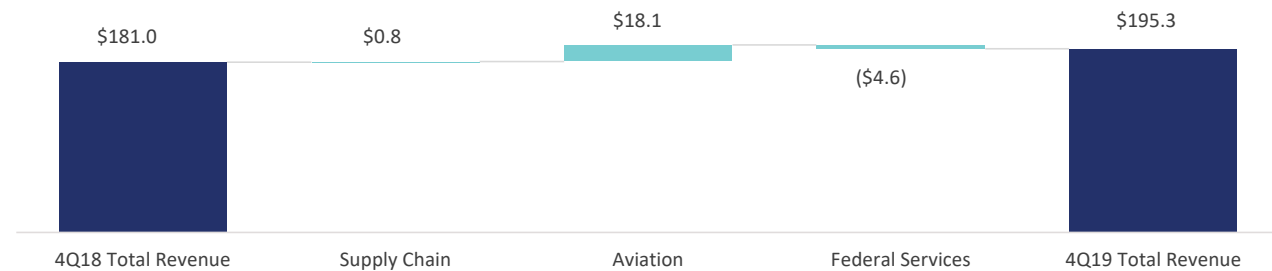
- > 1<sup>st</sup> Choice Aerospace acquisition was the primary driver of y/y revenue growth in 4Q2019

## Federal Services Drove Margin

- > \$1.3 million y/y improvement in Federal Services EBITDA

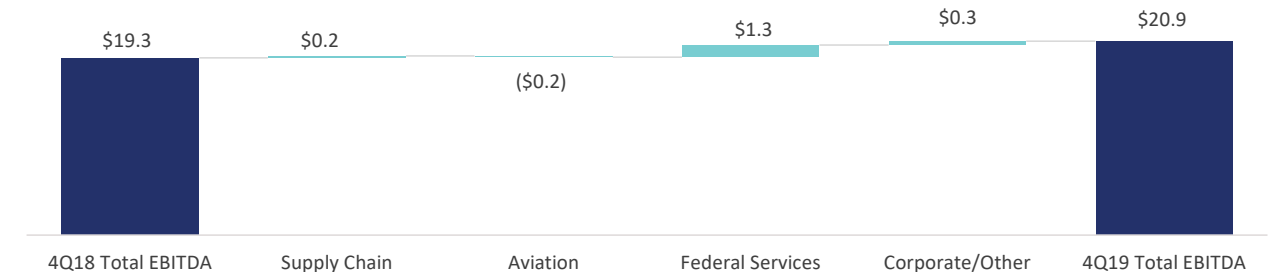
### Total Revenue Bridge

(\$MM)



### Total EBITDA Bridge

(\$MM)





# FULL-YEAR 2018 vs. 2019 PERFORMANCE BRIDGE

Fourth Quarter and Full-Year 2019



## Mixed Revenue Performance

- > Aviation drove growth, which was partially offset by 7% decline in Federal Services

## Supply Chain Was Flat

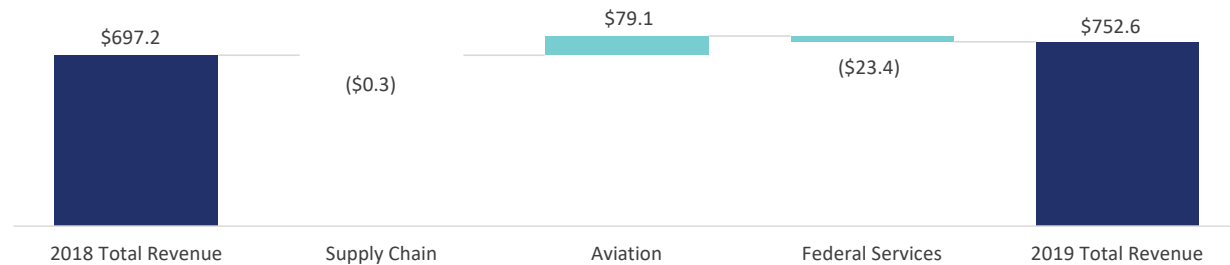
- > Gradual decline in USPS business being replaced with increased commercial sector activity

## Margin Expansion

- > EBITDA margin improved 90 bps y/y to 12.1% in 2019

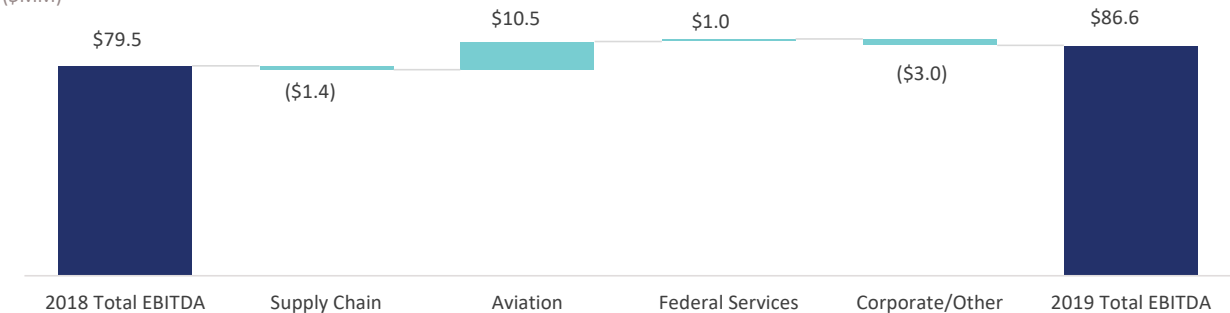
### Total Revenue Bridge

(\$MM)



### Total EBITDA Bridge

(\$MM)



# AVIATION GROUP PERFORMANCE SUMMARY

Fourth Quarter and Full-Year 2019



## 1<sup>st</sup> Choice Ahead of Plan

- > Acquisition performing ahead of plan on revenue, operating income and EBITDA

## Organic Growth Continues

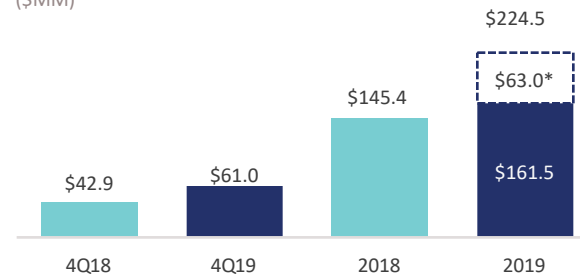
- > Excluding 1<sup>st</sup> Choice, the Aviation Group generated 11% organic revenue growth in 2019

## Increased Commercial Activity

- > Commercial aviation growth supported by growth in global parts distribution

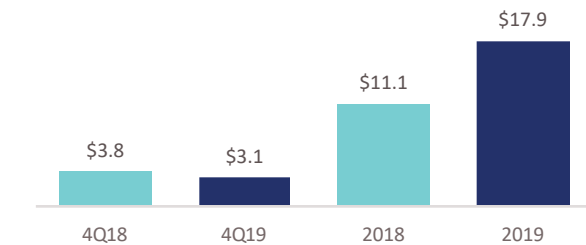
### Aviation Group Revenue

(\$MM)



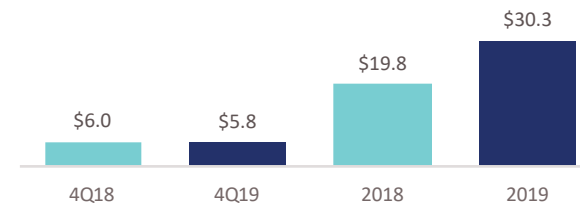
### Aviation Group Operating Income

(\$MM)



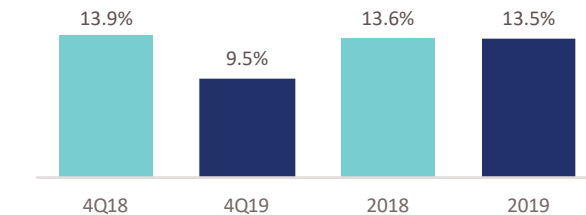
### Aviation Group EBITDA

(\$MM)



### Aviation Group EBITDA Margin

(%)



(1) Reflects \$63.0 million in revenue resulting from the acquisition of 1<sup>st</sup> Choice Aerospace in Jan. 2019.

# SUPPLY CHAIN GROUP PERFORMANCE SUMMARY

Fourth Quarter and Full-Year 2019



## USPS Update

- > USPS contract represented 78% of total Supply Chain Group revenue in 2019 compared to 82% in 2018

## Strong Margin Capture

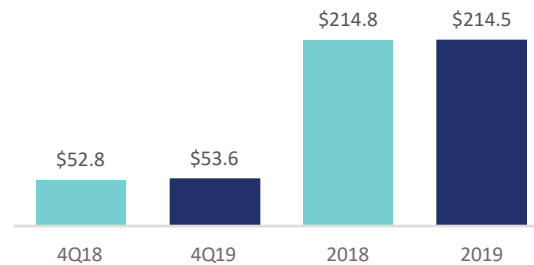
- > Consistently generating stable EBITDA margins in the 19-20% range

## Growth Opportunities

- > Building the channel with aftermarket commercial fleets, positioning VSE as the truck parts distributor and supply chain partner of choice

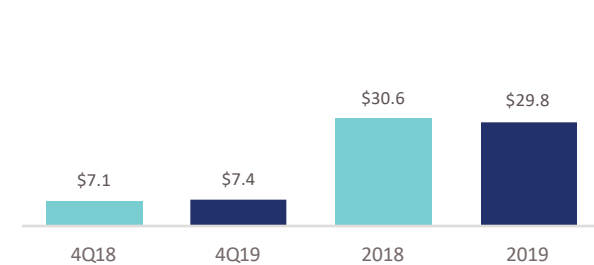
### Supply Chain Group Revenue

(\$MM)



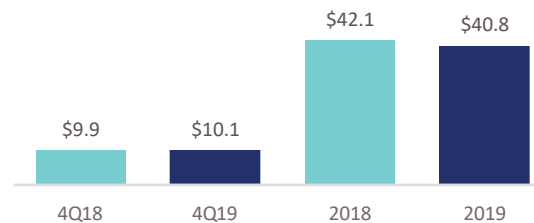
### Supply Chain Group Operating Income

(\$MM)



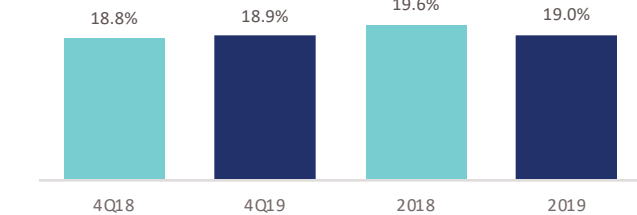
### Supply Chain Group EBITDA

(\$MM)



### Supply Chain Group EBITDA Margin

(%)



# SUPPLY CHAIN GROUP GROWING NON-USPS REVENUE

Focus on Customer Diversification and Growing Group Revenue In Commercial Channels



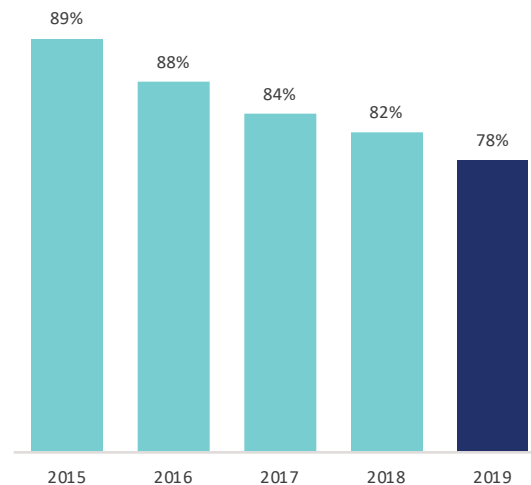
## Replacing USPS Revenue

- > Significant gains replacing lost USPS revenue since 2015

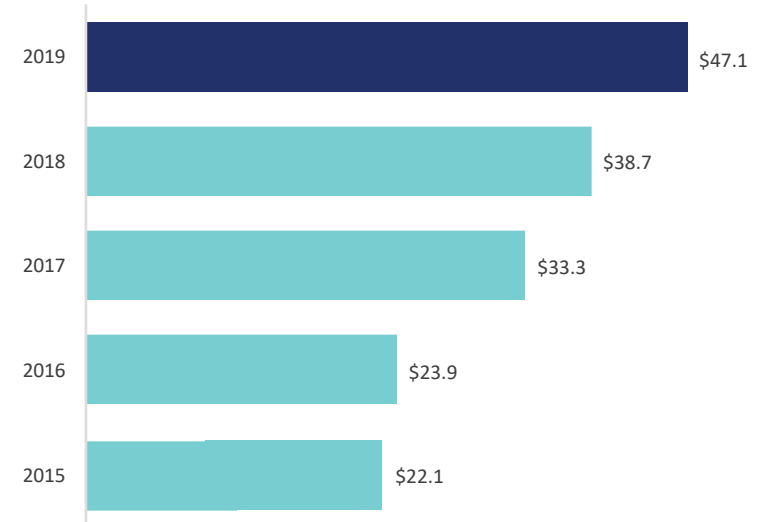
## Non-USPS Revenue Growing

- > Generated 19% growth in non-USPS revenue in 2019 tied to increased commercial activity

USPS as % of Total Supply Chain Group Revenue  
(\$MM)



Supply Chain Group Revenue, Ex-USPS  
(\$MM)



# FEDERAL SERVICES PERFORMANCE SUMMARY

Fourth Quarter and Full-Year 2019



## Revenue Focus

- > Phase One: Prioritize strategic focus and new business development / revenue pipeline
- > Phase Two: Margin expansion

## Rebuilding Backlog

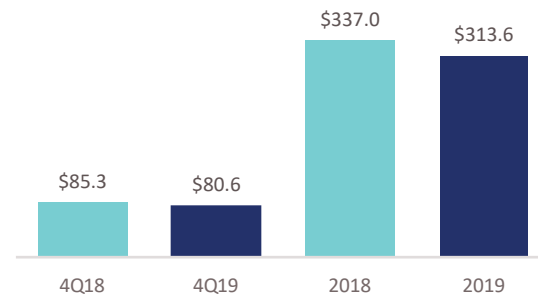
- > In recent years, business development was insufficient, resulting in lower Group revenue

## Fixed-Price Contract Shift

- > Transition from cost-plus contracts creates margin uplift opportunity

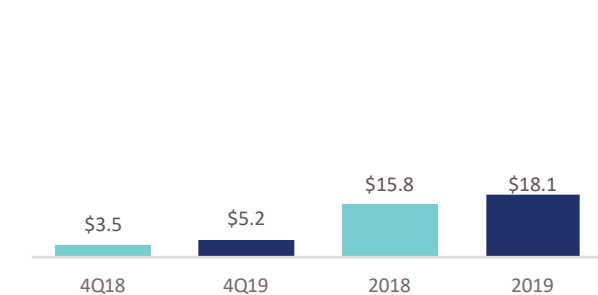
### Federal Services Group Revenue

(\$MM)



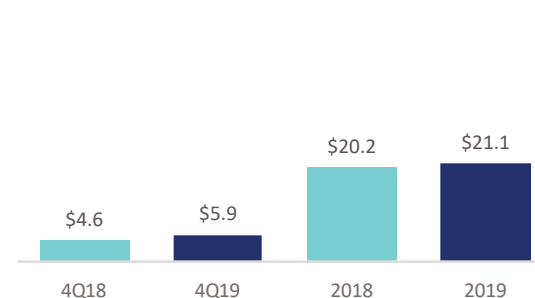
### Federal Services Group Operating Income

(\$MM)



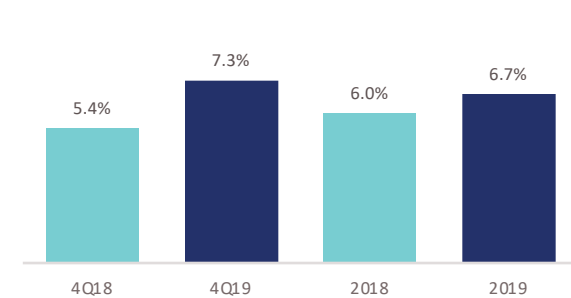
### Federal Services Group EBITDA

(\$MM)



### Federal Services Group EBITDA Margin

(%)



# DISCIPLINED BALANCE SHEET MANAGEMENT

## Maintaining Balance Sheet Optionality



### Significant Access to Liquidity

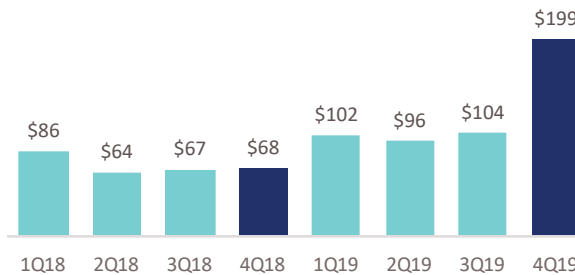
- > Approximately ~\$200 million of cash and availability on lending facilities

### Reducing Net Leverage

- > Net leverage has declined for four consecutive quarters

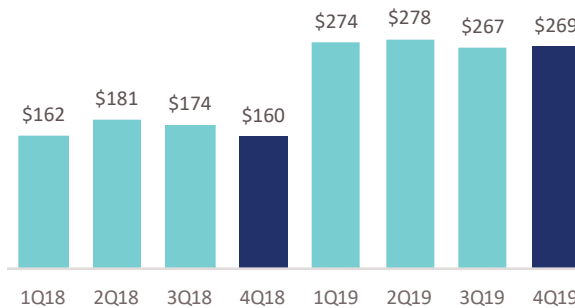
#### Total Cash & Unused Commitments on Term Loan and Revolving Credit Facility

(\$ MM) (1)



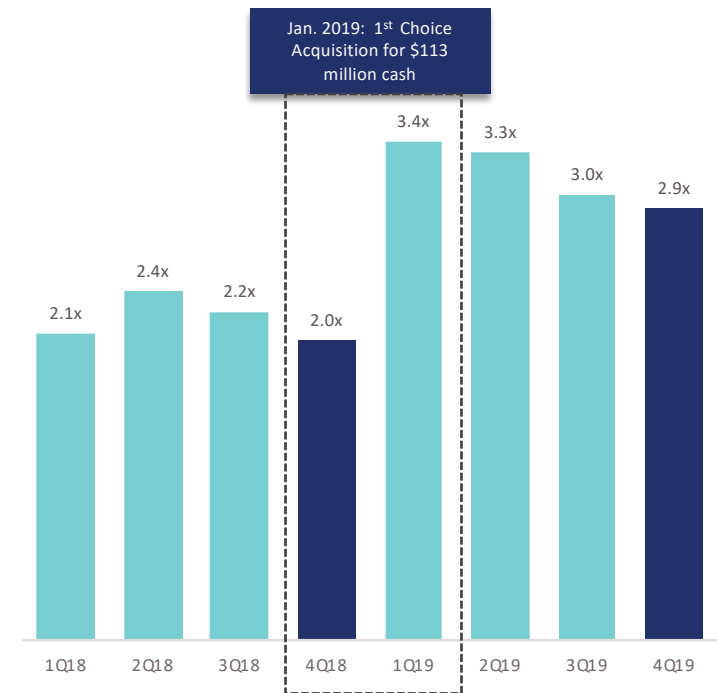
#### Total Net Debt

(\$ MM)



#### Net Debt / TTM Adjusted EBITDA (net leverage ratio)

(%) (2)



(1) On Dec. 2, 2019 we announced an amended loan agreement with our bank group. Under the terms of the amended agreement, our bank group increased total availability on the Company's term loan and revolving credit facility by a combined \$100 million. Following the close of the transaction, total committed capital under the amended loan agreement increased from \$373 million to \$473 million.

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

# STRATEGIC PRIORITIES

Introducing Go-Forward Strategy on 1Q 2020 Earnings Call



## VSE Corporation

### CREATE LEAN CORPORATE STRUCTURE

Support business groups with growth strategy and differentiated value propositions. Integrate acquired businesses within business groups to capture value and leverage synergies

#### FEDERAL SERVICES GROUP

##### IMPROVE CONTRACT MIX

> Build backlog, reweight business to balanced fixed-price contract model (away from cost-plus); margin uplift opportunity

#### AVIATION GROUP

##### REFOCUS CORE OFFERINGS

> Focus on high quality growth-focused aftermarket repair and distribution, providing strong growth markets and higher margin mix opportunity

#### SUPPLY CHAIN MANAGEMENT GROUP

##### GROW COMMERCIAL REVENUE

> Augment existing USPS business with incremental revenue opportunities within the commercial space

## INVESTMENT OPPORTUNITY

Increased Aftermarket Commercial Focus, Strong FCF Generation, Balance Sheet Optionality



Customer / market segment shift from traditional federal base to more balanced global, federal and commercial aftermarket customer mix



Re-focusing core business to support growth markets where VSE has well-defined and differentiated value proposition



Focus on increasing free cash flow to support strategic investments in growth



Conservative balance sheet management



Targeting complementary, accretive bolt-on acquisitions



New CEO to introduce corporate strategy mid-year 2020



## GAAP to NON-GAAP RECONCILIATIONS

### EBITDA and Adjusted EBITDA



(in thousands)

|                                                    | Three months ended December 31, |                 |              | For the years ended December 31, |                 |              |
|----------------------------------------------------|---------------------------------|-----------------|--------------|----------------------------------|-----------------|--------------|
|                                                    | 2019                            | 2018            | % Change     | 2019                             | 2018            | % Change     |
| <b>Net Income</b>                                  | <b>\$9,996</b>                  | <b>\$9,243</b>  | <b>8.1%</b>  | <b>\$37,024</b>                  | <b>\$35,080</b> | <b>5.5%</b>  |
| Interest Expense                                   | 3,568                           | 2,285           | 56.1%        | 13,830                           | 8,982           | 54.0%        |
| Income Taxes                                       | 1,249                           | 1,557           | (19.8)%      | 9,403                            | 10,168          | (7.5)%       |
| Amortization of Intangible Assets                  | 4,332                           | 4,004           | 8.2%         | 19,317                           | 16,017          | 20.6%        |
| Depreciation and Other Amortization                | 1,759                           | 2,236           | (21.3)%      | 6,996                            | 9,207           | (24)%        |
| <b>EBITDA</b>                                      | <b>20,904</b>                   | <b>19,325</b>   | <b>8.2%</b>  | <b>86,570</b>                    | <b>79,454</b>   | <b>9.0%</b>  |
| Earn-out adjustment                                | 1,900                           | —               |              | 1,900                            | —               |              |
| Acquisition Related and Executive Succession Costs | 259                             | 569             |              | 2,549                            | 569             |              |
| Gain on sale of IT Contract                        | —                               | —               |              | —                                | (1,700)         |              |
| <b>Adjusted EBITDA</b>                             | <b>\$23,063</b>                 | <b>\$19,894</b> | <b>15.9%</b> | <b>\$91,019</b>                  | <b>\$78,323</b> | <b>16.2%</b> |

## GAAP to NON-GAAP RECONCILIATIONS

### Segment EBITDA



(in thousands)

|                               | Three months ended December 31, |                |                | For the years ended December 31, |                 |               |
|-------------------------------|---------------------------------|----------------|----------------|----------------------------------|-----------------|---------------|
|                               | 2019                            | 2018           | % Change       | 2019                             | 2018            | % Change      |
| Aviation Group                |                                 |                |                |                                  |                 |               |
| <b>Operating Income</b>       | <b>\$3,081</b>                  | <b>\$3,785</b> | <b>(18.6)%</b> | <b>\$17,901</b>                  | <b>\$11,076</b> | <b>61.6%</b>  |
| Depreciation and Amortization | 2,687                           | 2,183          | 23.1%          | 12,385                           | 8,674           | 42.8%         |
| <b>EBITDA</b>                 | <b>\$5,768</b>                  | <b>\$5,968</b> | <b>(3.4)%</b>  | <b>\$30,286</b>                  | <b>\$19,750</b> | <b>53.4%</b>  |
| Supply Chain Group            |                                 |                |                |                                  |                 |               |
| <b>Operating Income</b>       | <b>\$7,431</b>                  | <b>\$7,079</b> | <b>5.0%</b>    | <b>\$29,819</b>                  | <b>\$30,626</b> | <b>(2.6)%</b> |
| Depreciation and Amortization | 2,713                           | 2,851          | (4.8)%         | 10,947                           | 11,494          | (4.8)%        |
| <b>EBITDA</b>                 | <b>\$10,144</b>                 | <b>\$9,930</b> | <b>2.2%</b>    | <b>\$40,766</b>                  | <b>\$42,120</b> | <b>(3.2)%</b> |
| Federal Services Group        |                                 |                |                |                                  |                 |               |
| <b>Operating Income</b>       | <b>\$5,176</b>                  | <b>\$3,527</b> | <b>46.8%</b>   | <b>\$18,144</b>                  | <b>\$15,797</b> | <b>14.9%</b>  |
| Depreciation and Amortization | 691                             | 1,072          | (35.5)%        | 2,981                            | 4,364           | (31.7)%       |
| <b>EBITDA</b>                 | <b>\$5,867</b>                  | <b>\$4,599</b> | <b>27.6%</b>   | <b>\$21,125</b>                  | <b>\$20,161</b> | <b>4.8%</b>   |

## GAAP to NON-GAAP RECONCILIATIONS

### Net leverage ratio



(in thousands)

|                                          | December 31,     |                  |
|------------------------------------------|------------------|------------------|
|                                          | 2019             | 2018             |
| Principal amount of debt                 | \$272,800        | \$162,734        |
| Less: Debt issuance costs                | (2,789)          | (2,135)          |
| Less: Cash and cash equivalents          | (734)            | (162)            |
| <b>Net debt</b>                          | <b>\$269,277</b> | <b>\$160,437</b> |
| <b>TTM Adjusted EBITDA<sup>(1)</sup></b> | <b>91,019</b>    | <b>78,323</b>    |
| <b>Net leverage ratio</b>                | <b>2.9x</b>      | <b>2.0x</b>      |

(1) TTM Adjusted EBITDA is defined as Adjusted EBITDA for the most recent twelve (12) period ending December 31, 2019 and December 31, 2018, respectively.