

October 29, 2019



# VSE Reports Financial Results for Third Quarter 2019

*VSE Delivers 17.4% Revenue and 9.7% Operating Income Growth*

ALEXANDRIA, Va.--(BUSINESS WIRE)-- VSE Corporation (Nasdaq: VSEC), a leading provider of repair services, supply chain management support and consulting services for land, sea and air transportation assets in the public and private sectors, reported the following unaudited consolidated financial results for the third quarter of 2019.

## Third Quarter Updates

- Revenues were \$198 million, up 17.4% as compared to the third quarter 2018.
- Operating income was \$17 million, up 9.7% as compared to the third quarter of 2018.
- Net income was \$11 million, up 4.9% as compared to the third quarter of 2018.
- Earnings per share (diluted) was \$0.95, up 3.3% as compared to the third quarter of 2018.
- Adjusted EBITDA (non-GAAP, as described below) was \$24.7 million, up 22.0% as compared to the third quarter of 2018.
- Debt repayment for the quarter was approximately \$10.7 million.
- In September, Rob Moore joined VSE as President of our Federal Services Group.

John Cuomo, VSE President and Chief Executive Officer, commented, "Our third quarter growth was balanced and diverse, representing strong performance from our legacy Aviation businesses as well as our recent 1<sup>st</sup> Choice acquisition. We successfully executed on growth initiatives and the results reflect strong third quarter increases in both our Aviation and Supply Chain Management Groups. During the quarter, our Aviation Group expanded repair capabilities with new offerings and was awarded new distribution partnerships; additionally, Aviation won new repair work on strong platforms, supporting both near-term results and future backlog. Our Supply Chain Management Group continued its customer, product and service diversification strategy with success in the quarter. Both businesses have clearly defined strategies for growth and proven success in test markets."

Mr. Cuomo continued, "We are pleased to welcome Rob Moore as President of our Federal Services Group. Rob brings broad federal experience and a proven track record in business development and market expansion that will drive a renewed focus on near and long-term growth opportunities in our federal and defense segment. We are focused on the future of this business group, redefining VSE in the federal marketplace, and aggressively building backlog."

### Third Quarter Results (unaudited)

(in thousands, except per share data)

|                  | Three months ended September 30, 2019 |            |          | Nine months ended September 30, 2019 |            |          |
|------------------|---------------------------------------|------------|----------|--------------------------------------|------------|----------|
|                  | 2019                                  | 2018       | % Change | 2019                                 | 2018       | % Change |
| Revenues         | \$ 198,326                            | \$ 168,931 | 17.4%    | \$ 557,356                           | \$ 516,222 | 8.0%     |
| Operating income | \$ 17,215                             | \$ 15,697  | 9.7%     | \$ 45,444                            | \$ 41,145  | 10.4%    |
| Net income       | \$ 10,527                             | \$ 10,034  | 4.9%     | \$ 27,028                            | \$ 25,837  | 4.6%     |
| EPS (Diluted)    | \$ 0.95                               | \$ 0.92    | 3.3%     | \$ 2.45                              | \$ 2.37    | 3.4%     |

VSE reported improved operating results for the third quarter of 2019 with increases in revenues and operating income over the third quarter of 2018. As previously reported, our operating income in the third quarter of 2018 included a one-time gain of \$1.7 million for the sale of a contract recorded within our Federal Services Group.

### Non-GAAP Financial Information

The non-GAAP Financial Information (unaudited) set forth below is not calculated in accordance with U.S. generally accepted accounting principles ("GAAP") under SEC Regulation G. We consider EBITDA a non-GAAP financial measure and an important indicator of performance and useful metric for management and investors to evaluate our business' ongoing operating performance on a consistent basis across reporting periods. EBITDA, however, should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP. 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 and 1st Choice Aerospace acquisition-related costs.

### Non-GAAP Financial Information (unaudited)

| (in thousands)                      | Three Month Results ended September 30, 2019 |           |          | Nine Month Results ended September 30, 2019 |           |         |
|-------------------------------------|--|-----------|----------|---|-----------|---------|
|                                     | 2019   | 2018      | % Change | 2019  | 2018      | %       |
| Net Income                          | \$ 10,527                                    | \$ 10,034 | 4.9%     | \$ 27,028                                   | \$ 25,837 | 4.7%    |
| Interest Expense                    | 3,706  | 2,340     | 58.4%    | 10,262                                      | 6,697     | 53.1%   |
| Income Taxes                        | 2,982  | 3,323     | (10.3)%  | 8,154                                       | 8,611     | (5.3)%  |
| Amortization of Intangible Assets   | 5,014  | 4,005     | 25.2%    | 14,985                                      | 12,013    | 24.7%   |
| Depreciation and Other Amortization | 1,971  | 2,256     | (12.6)%  | 5,637                                       | 6,971     | (19.3)% |
| EBITDA                              | 24,200                                       | 21,958    | 10.2%    | 66,066                                      | 60,129    | 9.9%    |

|  |                  |                  |              |                  |                  |
|--|------------------|------------------|--------------|------------------|------------------|
| Acquisition<br>Related and<br>Executive<br>Succession<br>Costs | 518              | —                | —%           | 2,290            | —                |
| Gain on sale<br>of IT<br>Contract                              | —                | (1,700)          | —%           | —                | (1,700)          |
| Adjusted<br>EBITDA   | <u>\$ 24,718</u> | <u>\$ 20,258</u> | <u>22.0%</u> | <u>\$ 68,356</u> | <u>\$ 58,429</u> |

### Capital Expenditures

Purchases of property and equipment totaled \$7.7 million for the first nine months of 2019 compared to \$2.5 million for the same period of 2018. We purchased a new facility for one of our 1st Choice Aerospace locations for \$5 million in the second quarter of 2019.

### Third Quarter Segment Results

The following is a summary and commentary of revenues and operating income for the three- and nine-month periods ended September 30, 2019 and September 30, 2018:

|                                   | Three months ended September 30, 2019 |                   | Nine months ended September 30, 2018 |                   |
|-----------------------------------|---------------------------------------|-------------------|--------------------------------------|-------------------|
|                                   | 2019                                  | 2018              | 2019                                 | 2018              |
| Revenues:                         |                                       |                   |                                      |                   |
| Supply Chain<br>Management Group  | \$ 55,369                             | \$ 51,834         | \$ 160,878                           | \$ 161,000        |
| Aviation Group                    | 59,186                                | 34,000            | 163,553                              | 102,000           |
| Federal Services<br>Group         | 83,771                                | 83,097            | 232,925                              | 251,000           |
| Total revenues                    | <u>\$ 198,326</u>                     | <u>\$ 168,931</u> | <u>\$ 557,356</u>                    | <u>\$ 516,000</u> |
| Operating Income:                 |                                       |                   |                                      |                   |
| Supply Chain<br>Management Group  | \$ 7,843                              | \$ 7,783          | \$ 22,388                            | \$ 23,000         |
| Aviation Group                    | 6,568                                 | 2,184             | 14,820                               | 7,000             |
| Federal Services<br>Group         | 4,524                                 | 6,186             | 12,968                               | 12,000            |
| Corporate/unallocated<br>expenses | (1,720)                               | (456)             | (4,732)                              | (1,000)           |
| Operating income                  | <u>\$ 17,215</u>                      | <u>\$ 15,697</u>  | <u>\$ 45,444</u>                     | <u>\$ 41,000</u>  |

### Supply Chain Management Group

Revenues for our Supply Chain Management Group increased approximately \$3.5 million or

6.8% for the third quarter of 2019 and decreased approximately \$1.1 million or 0.7% for the first nine months of 2019 compared to the same periods of 2018.

Operating income was substantially unchanged for the third quarter and decreased approximately \$1.2 million or 4.9% for the nine months. The decrease in operating income was primarily attributable to an increase in administrative and growth-focused expenses.

### **Aviation Group**

Revenues for our Aviation Group increased approximately \$25.2 million, or 74.1% for the third quarter and approximately \$61.0 million or 59.5% for the first nine months of 2019, compared to the same periods of 2018. The revenue increase was primarily driven by the addition of revenues from organic growth in both our distribution and repair businesses and results in our 1st Choice Aerospace acquisition from early January 2019.

Operating income increased approximately \$4.4 million or 200.7% for the third quarter and approximately \$7.5 million or 103.3% for the nine months. The increases in operating income were attributable primarily to our 1st Choice Aerospace acquisition and the increases in revenues from our legacy repair and distribution businesses.

### **Federal Services Group**

Revenues for our Federal Services Group were substantially unchanged for the third quarter of 2019 and decreased approximately \$18.8 million or 7.5% for the first nine months of 2019 as compared to the same periods of 2018.

Operating income decreased approximately \$1.7 million or 26.9% for the third quarter and increased approximately \$698 thousand or 5.7% for the nine months. The decrease in operating income for the quarter was primarily attributable to the gain on sale of a contract in 2018. Revenue declines for the nine months occurred in our lower margin work, resulting in minimal loss of operating income. We have increased operating income for this group through margin improvements on our other work.

Bookings in our Federal Services Group were \$190 million for the first nine months of 2019 compared to revenue for this group of \$233 million. Funded contract backlog on September 30, 2019 was \$252 million, compared to \$269 million on June 30, 2019 and \$345 million on September 30, 2018.

### **About VSE**

VSE maintains, extends and enhances legacy and next-generation systems and assets for our federal, defense and commercial clients by delivering solutions for fleet vehicle, ship, and aircraft sustainment, supply chain management, platform modernization, mission enhancement, and program management since 1959. VSE also provides Energy, IT, and Consulting services. For additional information regarding VSE services and products, please see the Company's web site at [www.vsecorp.com](http://www.vsecorp.com) or contact Christine Kaineg, VSE Investor Relations, at (703) 329-3263.

Please refer to the Form 10-Q that will be filed with the Securities and Exchange Commission (SEC) on or about October 31, 2019 for more details on our 2019 third quarter results. Also, refer to VSE's Annual Report on Form 10-K for the year ended December 31,

2018 for further information and analysis of VSE's financial condition and results of operations. VSE encourages investors and others to review the detailed reporting and disclosures contained in VSE's public filings for additional discussion about the status of customer programs and contract awards, risks, revenue sources and funding, dependence on material customers, and management's discussion of short- and long-term business challenges and opportunities.

### Safe Harbor

This news release contains statements that to the extent they are not recitations of historical fact, constitute "forward-looking statements" under federal securities laws. All such statements are intended to be subject to the safe harbor protection provided by applicable securities laws. For discussions identifying some important factors that could cause actual VSE results to differ materially from those anticipated in the forward-looking statements in this news release, see VSE's public filings with the SEC.

### VSE Corporation and Subsidiaries

#### Unaudited Consolidated Balance Sheets

(in thousands except share and per share amounts)

|  | September 30, | December 31, |
|--|---------------|--------------|
|  | 2019          | 2018         |
| Assets   |               |              |
| Current assets:                                |               |              |
| Cash and cash equivalents                      | \$ 1,095      | \$ 162       |
| Receivables, net                               | 69,793        | 60,004       |
| Unbilled receivables, net                      | 54,151        | 41,255       |
| Inventories, net                               | 202,811       | 166,392      |
| Other current assets                           | 12,652        | 13,407       |
| Total current assets                           | 340,502       | 281,220      |
| Property and equipment, net                    | 43,792        | 49,606       |
| Intangible assets, net                         | 142,907       | 94,892       |
| Goodwill                                       | 259,212       | 198,622      |
| Operating lease right-of-use assets            | 24,375        | —            |
| Other assets                                   | 16,845        | 14,488       |
| Total assets                                   | \$ 827,633    | \$ 638,828   |
| Liabilities and Stockholders' equity           |               |              |
| Current liabilities:                           |               |              |
| Current portion of long-term debt              | \$ 10,716     | \$ 9,466     |
| Accounts payable                               | 71,668        | 57,408       |
| Current portion of earn-out obligation         | 10,700        | —            |
| Accrued expenses and other current liabilities | 45,314        | 37,133       |
| Dividends payable                              | 987           | 871          |

|   |         |         |
|---|---------|---------|
| Total current liabilities                         | 139,385 | 104,878 |
| Long-term debt, less current portion              | 257,815 | 151,133 |
| Deferred compensation                             | 17,417  | 17,027  |
| Long-term lease obligations, less current portion | —       | 18,913  |
| Long-term operating lease liabilities             | 25,124  | —       |
| Earn-out obligation                               | 14,300  | —       |
| Deferred tax liabilities                          | 17,732  | 18,482  |
| Total liabilities                                 | 471,773 | 310,433 |

#### Commitments and contingencies

#### Stockholders' equity:

|  |            |            |
|--|------------|------------|
| Common stock, par value \$0.05 per share, authorized 15,000,000 shares; issued and outstanding 10,970,123 and 10,886,036, respectively | 549        | 544        |
| Additional paid-in capital   | 29,411     | 26,632     |
| Retained earnings  | 327,191    | 301,073    |
| Accumulated other comprehensive (loss) income  | (1,291)    | 146        |
| Total stockholders' equity   | 355,860    | 328,395    |
| Total liabilities and stockholders' equity   | \$ 827,633 | \$ 638,828 |

#### VSE Corporation and Subsidiaries

#### Unaudited Consolidated Statements of Income

(in thousands except share and per share amounts)

|  | For the three months ended |                       | For the nine months ended |                       |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
|  | September 30,<br>2019      | September 30,<br>2018 | September 30,<br>2019     | September 30,<br>2018 |
| <b>Revenues:</b>                             |                            |                       |                           |                       |
| Products                                     | \$ 96,832                  | \$ 85,886             | \$ 279,608                | \$ 264,678            |
| Services                                     | 101,494                    | 83,045                | 277,748                   | 251,544               |
| Total revenues                               | 198,326                    | 168,931               | 557,356                   | 516,222               |
| <b>Costs and operating expenses:</b>         |                            |                       |                           |                       |
| Products                                     | 81,988                     | 72,256                | 237,661                   | 222,816               |
| Services                                     | 93,568                     | 77,810                | 256,355                   | 239,536               |
| Selling, general and administrative expenses | 541                        | 863                   | 2,911                     | 2,412                 |
| Amortization of intangible assets            | 5,014                      | 4,005                 | 14,985                    | 12,013                |
| Total costs and operating expenses           | 181,111                    | 154,934               | 511,912                   | 476,777               |

|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| Gain on sale of contract                    | —                 | 1,700             | —                 | 1,700             |
| Operating income                            | 17,215            | 15,697            | 45,444            | 41,145            |
| Interest expense, net                       | 3,706             | 2,340             | 10,262            | 6,697             |
| Income before income taxes                  | 13,509            | 13,357            | 35,182            | 34,448            |
| Provision for income taxes                  | 2,982             | 3,323             | 8,154             | 8,611             |
| Net income                                  | <u>\$ 10,527</u>  | <u>\$ 10,034</u>  | <u>\$ 27,028</u>  | <u>\$ 25,837</u>  |
| Basic earnings per share                    | <u>\$ 0.96</u>    | <u>\$ 0.92</u>    | <u>\$ 2.47</u>    | <u>\$ 2.38</u>    |
| Basic weighted average shares outstanding   | <u>10,970,123</u> | <u>10,881,106</u> | <u>10,953,581</u> | <u>10,874,331</u> |
| Diluted earnings per share                  | <u>\$ 0.95</u>    | <u>\$ 0.92</u>    | <u>\$ 2.45</u>    | <u>\$ 2.37</u>    |
| Diluted weighted average shares outstanding | <u>11,060,081</u> | <u>10,935,112</u> | <u>11,035,951</u> | <u>10,916,989</u> |
| Dividends declared per share                | <u>\$ 0.09</u>    | <u>\$ 0.08</u>    | <u>\$ 0.26</u>    | <u>\$ 0.23</u>    |

## VSE Corporation and Subsidiaries

### Unaudited Consolidated Statements of Cash Flows

(in thousands)

|   | For the nine months ended<br>September 30, |           |
|---|--|-----------|
|   | 2019                                       | 2018      |
| Cash flows from operating activities:   |  |           |
| Net income  | \$ 27,028                                  | \$ 25,837 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |           |
| Depreciation and amortization   | 20,622                                     | 18,984    |
| Deferred taxes  | (1,230)                                    | (1,733)   |
| Stock-based compensation  | 2,592                                      | 2,146     |
| Gain on sale of contract  | —  | (1,700)   |
| Changes in operating assets and liabilities, net of impact of acquisitions:       |  |           |
| Receivables, net  | (2,380)                                    | 738       |
| Unbilled receivables, net   | (12,896)                                   | 11,298    |

|   |           |           |
|---|-----------|-----------|
| Inventories, net  | (29,540)  | (36,448)  |
| Other current assets and noncurrent assets                    | (481)     | 3,518     |
| Accounts payable and deferred compensation                    | 11,793    | (14,972)  |
| Accrued expenses and other current and noncurrent liabilities | 1,931     | (3,010)   |
| Long-term lease obligations                                   | —         | (1,237)   |
| Net cash provided by operating activities                     | 17,439    | 3,421     |
| Cash flows from investing activities:                         |           |           |
| Purchases of property and equipment                           | (7,689)   | (2,522)   |
| Proceeds from the sale of property and equipment              | 4         | 51        |
| Proceeds from the sale of contract                            | —         | 1,700     |
| Cash paid for acquisitions, net of cash acquired              | (112,660) | —         |
| Net cash used in investing activities                         | (120,345) | (771)     |
| Cash flows from financing activities:                         |           |           |
| Borrowings on loan agreement                                  | 382,501   | 468,949   |
| Repayments on loan agreement                                  | (274,969) | (465,521) |
| Payment of debt financing costs                               | —         | (1,702)   |
| Payments on capital lease obligations                         | —         | (1,077)   |
| Payments of taxes for equity transactions                     | (955)     | (641)     |
| Dividends paid  | (2,738)   | (2,393)   |
| Net cash provided by (used in) financing activities           | 103,839   | (2,385)   |
| Net increase in cash and cash equivalents                     | 933       | 265       |
| Cash and cash equivalents at beginning of period              | 162       | 624       |
| Cash and cash equivalents at end of period                    | \$ 1,095  | \$ 889    |

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