

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **April 30, 2020**

VSE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

0-3676
(Commission File Number)

54-0649263
(IRS Employer
Identification Number)

6348 Walker Lane
Alexandria, Virginia
(Address of Principal Executive Offices)

22310
(Zip Code)

(703) 960-4600
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ [] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ [] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ [] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ [] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.05 per share	VSEC	The NASDAQ Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

VSE CORPORATION

Item 2.02. Results of Operations and Financial Condition

On April 30, 2020, VSE Corporation (the “Company”) issued a press release reporting its financial results for the first quarter ended March 31, 2020. Additionally, the Company made available related materials to be discussed during the Company’s webcast and conference call referred to in such press release. A copy of the press release and related conference call materials are being furnished as Exhibits 99.1 and 99.2, respectively, to this Current Report on Form 8-K and are hereby incorporated by reference.

The information in the preceding paragraph, as well as Exhibits 99.1 and 99.2, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section. It may only be incorporated by reference into another filing under the Exchange Act or the Securities Act of 1933, as amended if such subsequent filing specifically references this Current Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit
Number

[99.1 Press release dated April 30, 2020, entitled, "VSE Corporation Announces First Quarter 2020 Results."](#)

[99.2 VSE Corporation Earnings Presentation for the First Quarter 2020](#)

VSE CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

VSE CORPORATION

(Registrant)

Date: April 30, 2020

By: /s/ Thomas R. Loftus

Thomas R. Loftus

Executive Vice President and Chief Financial Officer



VSE Corporation Announces First Quarter 2020 Results

ALEXANDRIA, Va., April 30, 2020 - VSE Corporation (NASDAQ: VSEC, "VSE", or the "Company"), a leading provider of aftermarket distribution and repair services for land, sea and air transportation assets for government and commercial markets, today announced results for the first quarter 2020.

FIRST QUARTER 2020 HIGHLIGHTS

- Enacted COVID-19 response and business continuity plan
- All repair, distribution and base locations remain open and operational
- Positive free cash flow anticipated for the full year 2020

FIRST QUARTER 2020 SUMMARY RESULTS AS COMPARED TO THE FIRST QUARTER 2019

- Total Revenues of \$177.4 million increased 4.4%
- GAAP Net Income of \$3.3 million decreased 49.5%
- Adjusted Net Income of \$9.8 million increased 32%
- Total Adjusted EBITDA of \$22.7 million increased 15.4%
- GAAP EPS (Diluted) of \$0.30 decreased 50%
- Adjusted EPS (Diluted) of \$0.89 increased 30.9%
- Free Cash Flow of \$6.0 million increased by \$5.6 million

For the three months ended March 31, 2020, the Company reported total revenue of \$177.4 million, versus \$169.9 million for the same period ended 2019. The Company reported adjusted net income of \$9.8 million or \$0.89 per adjusted diluted share, compared to \$7.4 million or \$0.68 per adjusted diluted share in the prior-year period. Adjusted EBITDA increased to \$22.7 million in first quarter 2020, versus \$19.7 million for the same period in 2019.

During the first quarter 2020, the Company renamed its reporting segments to reflect the strategic focus of each business moving forward. The Aviation Group was renamed Aviation segment; the Supply Chain Management Group was renamed Fleet segment; and the Federal Services Group was renamed Federal & Defense segment.

During the first quarter, Aviation segment revenue increased 18% on a year-over-year basis, driven by strong performance and market share gains for both aftermarket distribution products and maintenance, repair and overhaul ("MRO") services. Fleet segment revenue increased 3% in the first quarter, driven by new commercial market customers. Growth in both our Aviation and Fleet segments revenue offset an anticipated decline in Federal & Defense segment revenue. Federal & Defense segment revenue declined 4% in the first quarter due to a forecasted contract expiration in January 2020. Federal & Defense bookings increased more than 30% on a year-over-year basis, as new business development efforts and recent contract renewals and wins position the segment for future growth.

COVID-19 BUSINESS UPDATE

With the recent and continuing outbreak of the novel coronavirus (COVID-19), VSE has taken steps to ensure the ongoing safety of its employees, while continuing to serve customers with quality product and repair services.

The business operations of VSE are deemed critical and essential by federal and state governments. All VSE repair, distribution and base operations facilities remain open and operational, and the Company continues to deliver products and services to its customers without interruption. VSE has implemented virus mitigation and prevention protocols consistent with guidelines issued by the U.S. Centers for Disease Control and Prevention at all of its operating facilities. The Company has also mandated that employees work remotely where practicable.

The Company's Federal & Defense and Fleet segments are supported by historically stable, multi-year government contracts and long-term customer relationships. Collectively, both segments represented a combined 70% of total

revenue in 2019. The Company currently anticipates limited impact from COVID-19 on these two segments, as it continues to support the operational readiness of the Department of Defense and other federal/government customers.

The Company's Aviation segment supports commercial and business and general aviation customers with aftermarket parts and repair services. In response to the spread of COVID-19, global air travel began to decline materially in March 2020. At present, the Company anticipates air travel, and therefore revenue passenger miles, to remain well below historical levels for the remainder of the current calendar year. Although the Company achieved significant growth and market share gains during the first quarter 2020, the Company anticipates Aviation segment performance to be adversely impacted in 2020. The Aviation segment represented approximately 30% of revenue in 2019.

VSE recently completed a workforce and cost reduction plan that is expected to reduce approximately \$13 million in expenses on an annualized basis beginning in the second quarter 2020. Given expectations for a decline in the commercial aerospace market over the near-term, these cost reductions were primarily focused within the Aviation segment and reductions in corporate overhead.

FINANCIAL RESOURCES AND LIQUIDITY

As of March 31, 2020, the Company had \$176 million in cash and unused commitment availability under its \$350 million revolving credit facility maturing in 2023. The Company's existing credit facility includes a \$100 million accordion provision, subject to customary lender commitment approvals. As of March 31, 2020, VSE had total net debt outstanding of \$273 million and \$94 million trailing-twelve months adjusted EBITDA. Consistent with efforts to further lower working capital requirements, the Company has reduced forecasted capital expenditures and inventory purchases for the remainder of 2020. VSE anticipates generating positive free cash flow for the full-year 2020, as defined by operating cash flow less capital expenditures.

MANAGEMENT COMMENTARY

"Our diversified business model, which supports both commercial and government aftermarket customers, is a unique competitive advantage for VSE as we move through the current cycle," stated John Cuomo, President and CEO of VSE Corporation. "Our business is balanced between historically higher-growth, commercial-facing end markets, representing approximately 38% of revenue in first quarter 2020, together with long-term, often more stable multi-year government contracts representing approximately 62% of revenue. Although COVID-19 will have an adverse impact on our aviation business this year, we continue to view this market as a significant opportunity for VSE. In the interim, we expect revenue from our government-focused businesses and customers to help offset softness in the aerospace market. Looking ahead, we remain confident in the durability of our strategy and business model amidst current market volatility; a model that we believe positions us to emerge as an even stronger company in the years ahead.

"VSE delivered more than 30% year-over-year growth in adjusted net income during the first quarter, driven by a combination of new products and services, market share gains, increased engagement with existing customers, and improved contract type mix, together with disciplined margin and expense management," continued Cuomo. "Our Aviation segment reported record first quarter revenue and adjusted EBITDA, supported by market share gains and sales from new products and repair capabilities.

"Our Federal & Defense business made significant progress in recent months, given the addition of new leadership and a strategic plan focused on developing a pipeline of long-term government contracts," continued Cuomo. "In the last 60 days, we were awarded more than \$90 million in government task orders and delivery orders, a testament to the efforts of our team and decades of experience servicing land, air and marine transportation assets.

"Despite the market challenges resulting from COVID-19, we expect to be profitable and free cash flow positive for the full-year 2020, supported by a combination of stable revenue and profit in our Federal & Defense and Fleet segments, together with disciplined expense management and targeted reductions in capital expenditures. Exiting the quarter, we had \$176 million in cash and liquidity and total net debt of \$273 million, or 2.9x trailing-twelve months adjusted EBITDA. Given our continued focus on disciplined balance sheet management, we reduced total debt outstanding by \$30 million in March 2020," concluded Cuomo.

SEGMENT RESULTS

AVIATION

Distribution & Repair Services

VSE's **Aviation** segment provides aftermarket repair and distribution services to commercial, cargo, business and general aviation, military/defense and rotorcraft customers globally. Core services include parts distribution, component and engine accessory maintenance, repair and overhaul (MRO) services, rotatable exchange, and supply chain services.

Aviation segment revenue increased 18% year-over-year to \$58.1 million in the first quarter 2020 through balanced contributions from both VSE's distribution and MRO services offerings. Excluding non-recurring items related to the sale of Prime Turbines LLC and other assets, Aviation operating income increased 49% to \$4.5 million in the first quarter of 2020, while Aviation segment Adjusted EBITDA increased 21% to \$7.6 million in the first quarter 2020. The year-over-year increase in first quarter operating income was attributable to balanced contributions and strong sales growth from both VSE's distribution and repair offerings.

The Company recently announced that Paul Goffredi, Aviation segment President, will depart the Company on May 1, 2020. John Cuomo will act as interim segment President. Mr. Cuomo has been President and CEO of VSE since April 2019. He spent 19 years in aerospace in senior leader roles prior to joining VSE, and is well positioned to support this business segment through these uncertain times.

FLEET

Distribution & Fleet Services

VSE's **Fleet** segment provides parts, inventory management, e-commerce fulfillment, logistics, supply chain support and other services to support the commercial aftermarket medium- and heavy-duty truck market, the United States Postal Service (USPS), and the United States Department of Defense. Core services include parts distribution, sourcing, IT solutions, customized fleet logistics, warehousing, kitting, just-in-time supply chain management, alternative product sourcing, engineering and technical support.

Fleet segment revenue increased 3% year-over-year to \$53.2 million in the first quarter 2020, while operating income decreased 1% year-over-year to \$6.9 million in the first quarter 2020. The segment continues to successfully progress on its customer diversification strategy, with commercial customers growing \$4.8 million or 122% in the first quarter on a year-over-year basis. Fleet segment Adjusted EBITDA decreased 2% year-over-year in the first quarter to \$9.6 million. The decrease in first quarter 2020 operating income was primarily attributable to customer and product mix.

FEDERAL & DEFENSE

Logistics & Sustainment Services

VSE's **Federal & Defense** segment provides aftermarket maintenance, repair and overhaul (MRO) and logistics services to improve operational readiness and extend the life cycle of military vehicles, ships and aircraft for the U.S. Armed Forces, federal agencies and international defense customers. Core services include base operations support, procurement, supply chain management, vehicle, maritime and aircraft sustainment services, IT services and energy consulting.

Federal & Defense segment revenue declined 4% year-over-year to \$66.1 million in the first quarter 2020. Operating income increased 45% year-over-year to \$4.9 million in the first quarter 2020. Federal & Defense segment Adjusted EBITDA increased 34% year-over-year in the first quarter 2020 to \$5.7 million. The year-over-year increase in operating income for the first quarter resulted from improved performance on existing contracts and more fixed-price work with government customers.

For the first quarter 2020, Federal & Defense segment bookings increased 31% year-over-year to \$67 million, while funded backlog declined 28% year-over-year to \$201 million. The decline in funded backlog was attributable to the expiration of a contract in January 2020. The current management team is focused on revitalizing this business with an emphasis on growing backlog and developing a channel of new customer activity in the current year, with good progress in the first quarter.

Non-GAAP Measures

In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), this earnings release also contains Non-GAAP financial measures. The reasons why we believe these measures provide useful information to investors and a reconciliation of these measures to the most directly comparable GAAP

measures and other information relating to these Non-GAAP measures are included in the supplemental schedules attached.

CONFERENCE CALL

A conference call will be held Friday, May 1, 2020 at 8:30 A.M. ET to review the Company's financial results, discuss recent events and conduct a question-and-answer session.

A webcast of the conference call and accompanying presentation materials will be available in the Investor Relations section of VSE's website at <https://ir.vsecorp.com>. To listen to a live broadcast, go to the site at least 15 minutes prior to the scheduled start time in order to register, download, and install any necessary audio software.

To participate in the live teleconference:

Domestic Live: (877) 407-0789
International Live: (201) 689-8562
Web Link: <http://public.viavid.com/index.php?id=138470>

To listen to a replay of the teleconference through May 15, 2020:

Domestic Replay: (844) 512-2921
International Replay: (412) 317-6671
Replay PIN Number: 13700168

FIRST QUARTER RESULTS

(in thousands, except per share data)

	Three months ended March 31,		
	2020	2019	% Change
Revenues	\$ 177,418	\$ 169,919	4.4 %
Operating income	\$ 9,734	\$ 11,813	(17.6)%
Net income	\$ 3,332	\$ 6,603	(49.5)%
EPS (Diluted)	\$ 0.30	\$ 0.60	(50.0)%

First Quarter Segment Results

The following is a summary of revenues and operating income for the three-month period ended March 31, 2020 and March 31, 2019:

	Three months ended March 31,		
	2020	2019	% Change
Revenues:			
Aviation segment	\$ 58,080	\$ 49,370	17.6 %
Fleet segment	53,204	51,704	2.9 %
Federal & Defense segment	66,134	68,845	(3.9)%
Total Revenues	<u>\$ 177,418</u>	<u>\$ 169,919</u>	<u>4.4 %</u>
Operating Income:			
Aviation segment	\$ (1,880)	\$ 3,048	(161.7)%
Fleet segment	6,906	6,988	(1.2)%
Federal & Defense segment	4,924	3,385	45.5 %
Corporate/unallocated expenses	(216)	(1,608)	(86.6)%
Operating Income	<u>\$ 9,734</u>	<u>\$ 11,813</u>	<u>(17.6)%</u>

NON-GAAP FINANCIAL INFORMATION

Reconciliation of Adjusted Net Income and Adjusted EPS to Net Income

	Three months ended March 31,		
	2020	2019	% Change
Net Income	\$ 3,332	\$ 6,603	(49.5)%
Adjustments to Net Income:			
Acquisition and CEO Transition Costs	—	1,121	— %
Earn-out adjustment	301	—	— %
Loss on sale of a business entity and certain assets	7,536	—	— %
Gain on sale of property	(1,108)	—	— %
	10,061	7,724	30.3 %
Tax impact of adjusted items	236	280	— %
Adjusted Net Income	\$ 9,825	\$ 7,444	32.0 %
Weighted Average Dilutive Shares	11,101	10,974	— %
Adjusted EPS (Diluted)	\$ 0.89	\$ 0.68	30.9 %

Reconciliation of Consolidated EBIDTA and Adjusted EBITDA to Net Income

(in thousands)

	Three months ended March 31,		
	2020	2019	% Change
Net Income	\$ 3,332	\$ 6,603	(49.5)%
Interest Expense	3,486	3,158	10.4 %
Income Taxes	2,916	2,052	42.1 %
Amortization of Intangible Assets	4,723	4,991	(5.4)%
Depreciation and Other Amortization	1,521	1,747	(12.9)%
EBITDA	15,978	18,551	(13.9)%
Acquisition and CEO Transition Costs	—	1,121	— %
Earn-out adjustment	301	—	— %
Loss on sale of a business entity and certain assets	7,536	—	— %
Gain on sale of property	(1,108)	—	— %
Adjusted EBITDA	\$ 22,707	\$ 19,672	15.4 %

The Company reported total capital expenditures in the first quarter of \$724 thousand.

Reconciliation of Segment EBITDA and Adjusted EBITDA to Operating Income

(in thousands)

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

The non-GAAP Financial Information set forth in this document is not calculated in accordance with U.S. generally accepted accounting principles ("GAAP") under SEC Regulation G. We consider Adjusted Net Income, Adjusted EPS (Diluted), EBITDA, Adjusted EBITDA, trailing-twelve months Adjusted EBITDA and free cash flow as non-GAAP financial measures and important indicators of performance and useful metrics for management and investors to evaluate our business' ongoing operating performance on a consistent basis across reporting periods. These non-GAAP financial measures, however, should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP. Adjusted Net Income represents Net Income adjusted for executive succession costs, 1st Choice Aerospace acquisition-related costs including any earn-out adjustments, loss on sale of a business entity and certain assets, gain on sale of property, and related tax impact. Adjusted EPS (Diluted) is computed by dividing net income, adjusted for the discrete items as identified above and the related tax impacts, by the diluted weighted average number of common shares outstanding. EBITDA represents net income before interest expense, income taxes, amortization of intangible assets and depreciation and other amortization. Adjusted EBITDA represents EBITDA (as defined above) adjusted for discrete items as identified above, and trailing-twelve months Adjusted EBITDA is defined as Adjusted EBITDA for the most recent twelve (12) month period ending March 31, 2020. Free cash flow represents operating cash flow less capital expenditures.

ABOUT VSE CORPORATION

VSE is a leading provider of aftermarket distribution and repair services for land, sea and air transportation assets for government and commercial markets. Core services include maintenance, repair and overhaul (MRO) services, parts distribution, supply chain management and logistics, engineering support, and consulting and training services for global commercial, federal, military and defense customers. VSE also provides information technology and energy consulting services. For additional information regarding VSE's services and products, visit us at www.vsecorp.com.

Please refer to the Form 10-Q that will be filed with the Securities and Exchange Commission (SEC) on or about May 1, 2020 for more details on our 2020 first quarter results. Also, refer to VSE's Annual Report on Form 10-K for the year ended December 31, 2019 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.

FORWARD LOOKING STATEMENTS

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

INVESTOR CONTACT

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investors@vsecorp.com

VSE Corporation and Subsidiaries
Unaudited Consolidated Balance Sheets

(in thousands except share and per share amounts)

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 543	\$ 734
Receivables, net	70,793	70,630
Unbilled receivables, net	43,928	46,279
Inventories, net	210,030	218,627
Other current assets	17,332	19,071
Total current assets	342,626	355,341
Property and equipment, net	37,276	43,465
Intangible assets, net	119,166	132,175
Goodwill	269,071	276,450
Operating lease - right-of-use assets	21,334	20,943
Other assets	21,936	17,490
Total assets	\$ 811,409	\$ 845,864
Liabilities and Stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 17,820	\$ 16,883
Accounts payable	67,709	68,099
Current portion of earn-out obligation	5,300	31,700
Accrued expenses and other current liabilities	38,345	46,514
Dividends payable	993	987
Total current liabilities	130,167	164,183
Long-term debt, less current portion	255,880	253,128
Deferred compensation	17,985	18,146
Long-term lease obligations under operating leases	25,014	24,441
Earn-out obligation, less current portion	—	5,000
Deferred tax liabilities	15,962	17,865
Total liabilities	445,008	482,763
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.05 per share, authorized 15,000,000 shares; issued and outstanding 11,029,169 and 10,970,123, respectively	551	549
Additional paid-in capital	31,244	29,411
Retained earnings	336,584	334,246
Accumulated other comprehensive loss	(1,978)	(1,105)
Total stockholders' equity	366,401	363,101
Total liabilities and stockholders' equity	\$ 811,409	\$ 845,864

VSE Corporation and Subsidiaries
Unaudited Consolidated Statements of Income
(in thousands except share and per share amounts)

	For the three months ended March 31,	
	2020	2019
Revenues:		
Products	\$ 76,342	\$ 73,741
Services	101,076	96,178
Total revenues	177,418	169,919
Costs and operating expenses:		
Products	65,527	62,857
Services	90,758	88,876
Selling, general and administrative expenses	248	1,382
Amortization of intangible assets	4,723	4,991
Total costs and operating expenses	161,256	158,106
	16,162	11,813
Loss on sale of a business entity and certain assets	(7,536)	—
Gain on sale of property	1,108	—
Operating income	9,734	11,813
Interest expense, net	3,486	3,158
Income before income taxes	6,248	8,655
Provision for income taxes	2,916	2,052
Net income	\$ 3,332	\$ 6,603
Basic earnings per share	\$ 0.30	\$ 0.60
Basic weighted average shares outstanding	11,000,204	10,920,171
Diluted earnings per share	\$ 0.30	\$ 0.60
Diluted weighted average shares outstanding	11,100,506	10,974,081
Dividends declared per share	\$ 0.09	\$ 0.08

VSE Corporation and Subsidiaries
Unaudited Consolidated Statements of Cash Flows

(in thousands)

	For the three months ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 3,332	\$ 6,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,475	7,430
Deferred taxes	1,592	(564)
Stock-based compensation	897	1,640
Loss on sale of a business entity and certain assets	7,536	—
Gain on sale of property and equipment	(1,127)	—
Earn-out obligation adjustment	301	—
Changes in operating assets and liabilities, net of impact of acquisitions:		
Receivables	(163)	2,667
Unbilled receivables	(2,041)	(3,195)
Inventories	(8,255)	(7,798)
Other current assets and noncurrent assets	2,777	(6,692)
Accounts payable and deferred compensation	395	2,653
Accrued expenses and other current and noncurrent liabilities	(4,961)	(1,675)
Net cash provided by operating activities	6,758	1,069
Cash flows from investing activities:		
Purchases of property and equipment	(724)	(601)
Proceeds from the sale of property and equipment	2,424	3
Proceeds from the sale of a business entity and certain assets	21,127	—
Cash paid for acquisitions, net of cash acquired	—	(112,660)
Net cash provided by (used in) investing activities	22,827	(113,258)
Cash flows from financing activities:		
Borrowings on loan agreement	131,148	194,598
Repayments on loan agreement	(127,692)	(80,183)
Earn-out obligation payments	(31,701)	—
Payments of taxes for equity transactions	(543)	(687)
Dividends paid	(988)	(872)
Net cash (used in) provided by financing activities	(29,776)	112,856
Net increase in cash and cash equivalents	(191)	667
Cash and cash equivalents at beginning of period	734	162
Cash and cash equivalents at end of period	\$ 543	\$ 829



VSE Corporation Earnings Presentation

First Quarter 2020

1 May 2020

Forward-Looking Statements

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

Non-GAAP Financial Measures

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

1Q20 CONSOLIDATED PERFORMANCE



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

Total Revenue
+4.4% y/y

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

Adjusted Net Income
+32% y/y

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

Adjusted EBITDA
+15.4% y/y

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

Free Cash Flow
+\$5.6M y/y

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

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

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

COVID-19 BUSINESS UPDATE

All Segments Remain Operational; Cost Reduction Plan in Effect



EMPLOYEE SAFETY

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



COST REDUCTIONS

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



BUSINESS OPERATIONS

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

GAAP FINANCIAL SUMMARY

1Q20 and TTM⁽¹⁾ – Y/Y Comparisons



Market Share Gain Drives Growth

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

Total Revenue
(\$MM)



Operating Income
(\$MM)



Non-Recurring Items

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

Net Income
(\$MM)



Diluted Earnings Per Share
(\$ Per Share)



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

NON-GAAP FINANCIAL SUMMARY

1Q20 and TTM – Y/Y Comparisons



Broad-Based Y/Y Improvement

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

Adjusted Net Income

(\$MM)



Adjusted EBITDA

(\$MM)



Adjusted Diluted Earnings Per Share

(\$ Per Share)



Adjusted EBITDA Margin

(%)



1Q19 vs. 1Q20 PERFORMANCE BRIDGE



Y/Y Comparisons

Revenue Drivers

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

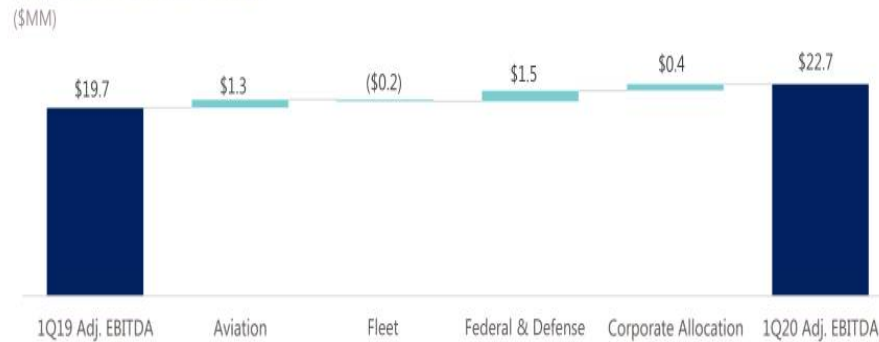
EBITDA Drivers

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

Total Revenue Bridge



Total Adjusted EBITDA Bridge



AVIATION

1Q20 and TTM – Y/Y Comparisons



Revenue +18% Y/Y

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

Aviation Segment Revenue

(\$MM)



Aviation Segment Operating Income

(\$MM)



Adjusted EBITDA +21% Y/Y

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

Aviation Segment Adjusted EBITDA

(\$MM)



Aviation Segment Adjusted EBITDA Margin

(%)



FLEET

1Q20 and TTM – Y/Y Comparisons



Revenue +3% Y/Y

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

Adjusted EBITDA (2%) Y/Y

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

Fleet Segment Revenue

(\$MM)



Fleet Segment Operating Income

(\$MM)



Fleet Segment Adjusted EBITDA

(\$MM)



Fleet Segment Adjusted EBITDA Margin

(%)



FEDERAL & DEFENSE

1Q20 and TTM – Y/Y Comparisons



Revenue (4%) Y/Y

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

Federal & Defense Segment Revenue

(\$MM)



Federal & Defense Segment Operating Income

(\$MM)



Adjusted EBITDA +34% Y/Y

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

Federal & Defense Segment Adjusted EBITDA

(\$MM)



Federal & Defense Segment Adjusted EBITDA Margin

(%)



MAINTAINING BALANCE SHEET OPTIONALITY

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



Access to Liquidity (31 Mar 2020)

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

Q1 Liquidity Highlights

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

Unused Commitments on Term Loan and Revolving Credit Facility

(\$ MM)



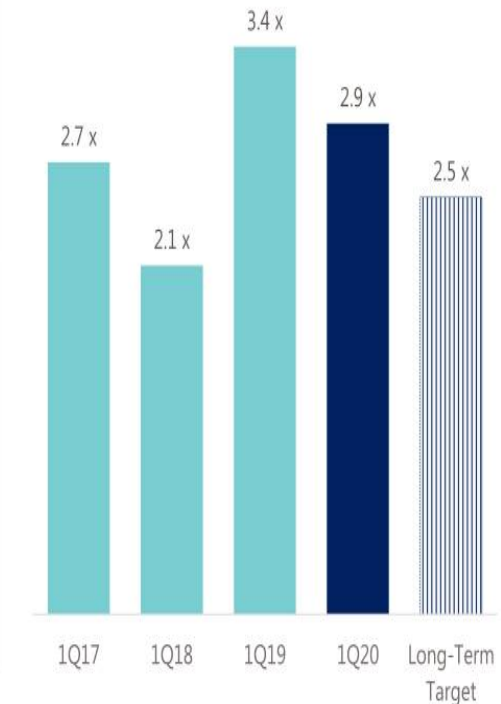
Total Net Debt

(\$ MM)



Ratio of Net Debt to TTM Adjusted EBITDA

(1)



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

GAAP TO NON-GAAP RECONCILIATIONS

Adjusted Net Income and Adjusted EPS (Diluted)



(in thousands)

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

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

GAAP TO NON-GAAP RECONCILIATIONS

EBITDA and Adjusted EBITDA



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

GAAP TO NON-GAAP RECONCILIATIONS

Segment EBITDA and Adjusted EBITDA



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

GAAP TO NON-GAAP RECONCILIATIONS

Net Leverage Ratio



(in thousands)

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

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



VSE Corporation Investor Presentation

May 2020

CORPORATE PROFILE

Pure-Play Aftermarket and MRO Services Company



DIVERSIFIED REVENUE MIX



AVIATION

Distribution & MRO Services

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



FLEET

Distribution & Fleet Services

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



FEDERAL & DEFENSE

Logistics & Sustainment Services

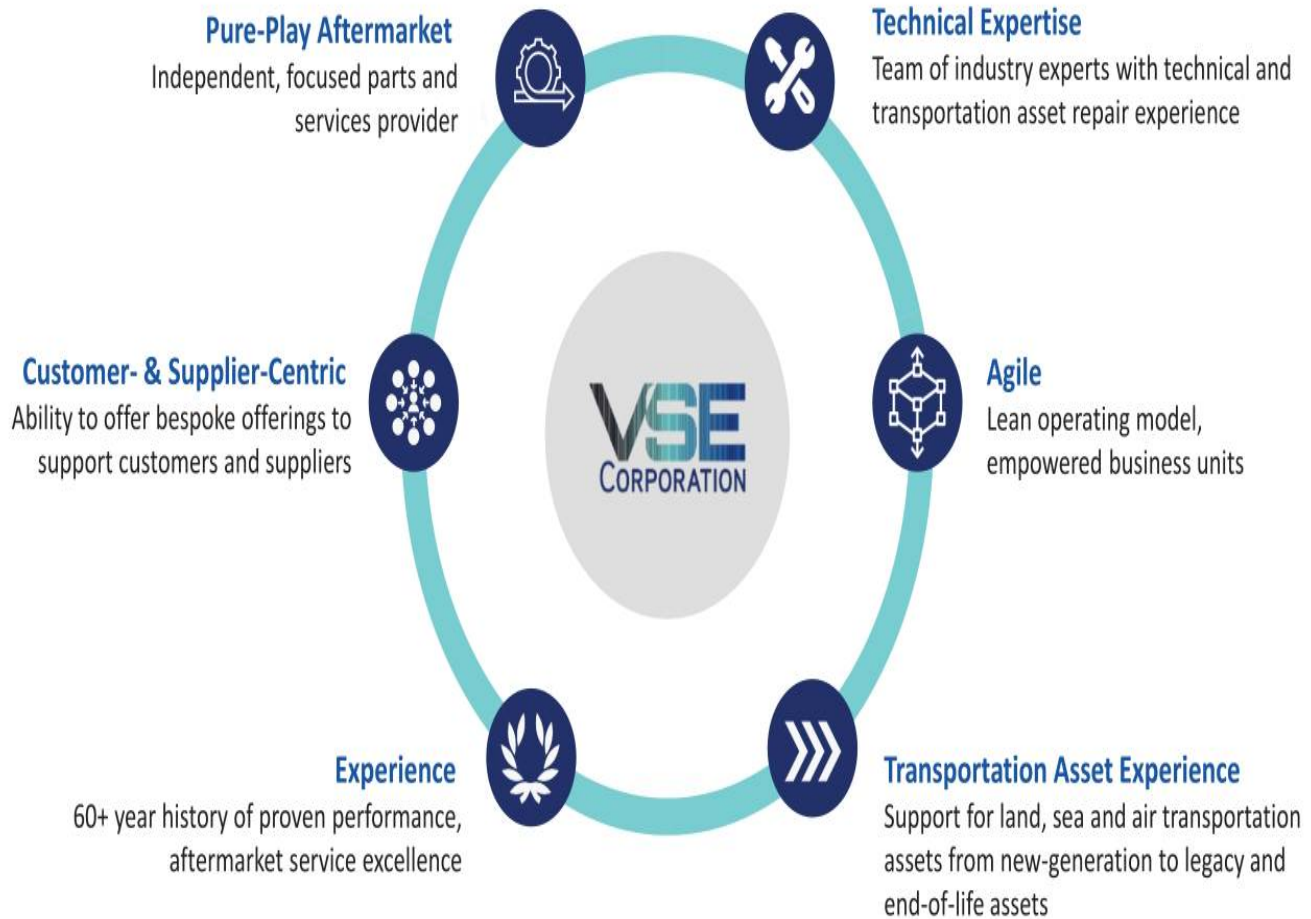
- » **Aftermarket** maintenance, repair and overhaul (MRO) and logistics for military vehicles, ships and aircraft for federal and defense agencies
- » Base operations support (BOS)
- » Procurement and supply chain management
- » Aircraft, vehicle and marine sustainment services
- » IT services and energy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

100% Aftermarket Services

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

STRATEGIC OVERVIEW

Our Unique Value Proposition



STRATEGIC OVERVIEW

Roadmap for Growth



Organic Growth Factors

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

Inorganic Growth Requirements

Focused, disciplined acquisition strategy targeting:

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

| AVIATION SEGMENT OVERVIEW

AVIATION

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

Offerings include:

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



Key Customers



AVIATION SEGMENT STRATEGY

>> INDEPENDENCE

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

>> AGILITY

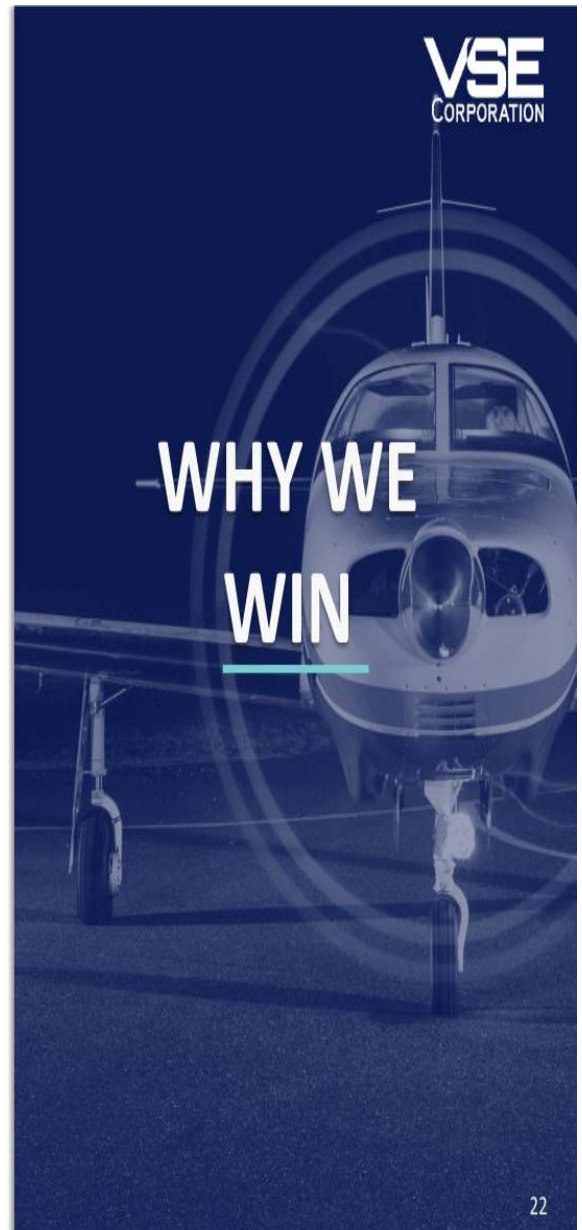
Organization structure provides rapid response, reliable support and bespoke support for customers and OEM supplier partners

>> TECHNICAL EXPERTISE

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

>> INVENTORY & PLANNING

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



AVIATION SEGMENT STRATEGY

>> MRO CAPABILITY DEVELOPMENT

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

>> DISTRIBUTION PRODUCT EXPANSION

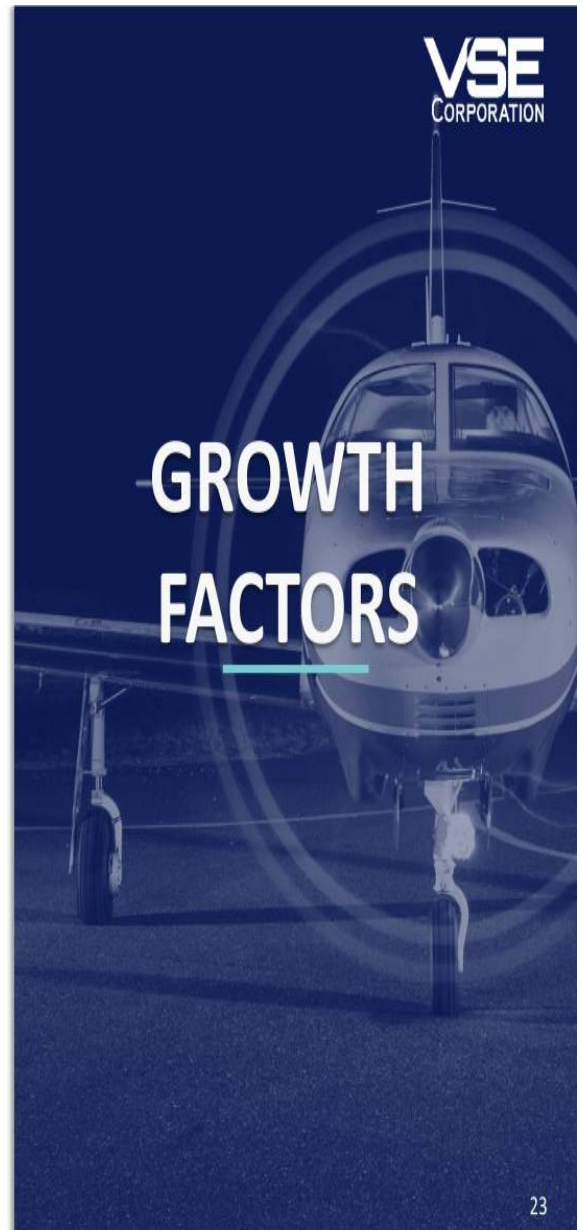
New proprietary OEM product additions to support aftermarket airframe, engine and interior platforms

>> INTERNATIONAL EXPANSION

Expansion in core aerospace markets for MRO and distribution

>> NEW CUSTOMERS

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



| FLEET SEGMENT OVERVIEW

FLEET *(formerly Supply Chain Management Group)*

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

Offerings include:

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



Key Customers



FLEET SEGMENT STRATEGY

>> UNIQUE MARKET OFFERING

Stocking Distributor + Technology Solutions + Consigned Parts Provider

>> NICHE CUSTOMER FOCUS

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

>> PROPRIETARY INVENTORY MANAGEMENT

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

>> TECHNICAL CAPABILITIES

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

>> PRIVATE LABEL PARTS

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

VSE
CORPORATION

**WHY WE
WIN**

FLEET SEGMENT STRATEGY

>> CUSTOMER DIVERSIFICATION

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

>> SHARE OF WALLET EXPANSION

Product expansion to existing Just-in-Time clients

>> MAINTAIN THE CORE

Continue to support USPS fleet and DoD vehicle parts

>> PRODUCT EXPANSION

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

>> GEOGRAPHIC EXPANSION

Geographic expansion beyond Northeast United States

VSE
CORPORATION

GROWTH FACTORS

| FEDERAL & DEFENSE SEGMENT OVERVIEW



FEDERAL & DEFENSE *(formerly Federal Services Group)*

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

Offerings include:

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

Key Customers



FEDERAL & DEFENSE SEGMENT STRATEGY

>> PAST PERFORMANCE

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

>> INDUSTRY EXPERTISE

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

>> LEGACY ASSET SPECIALIST

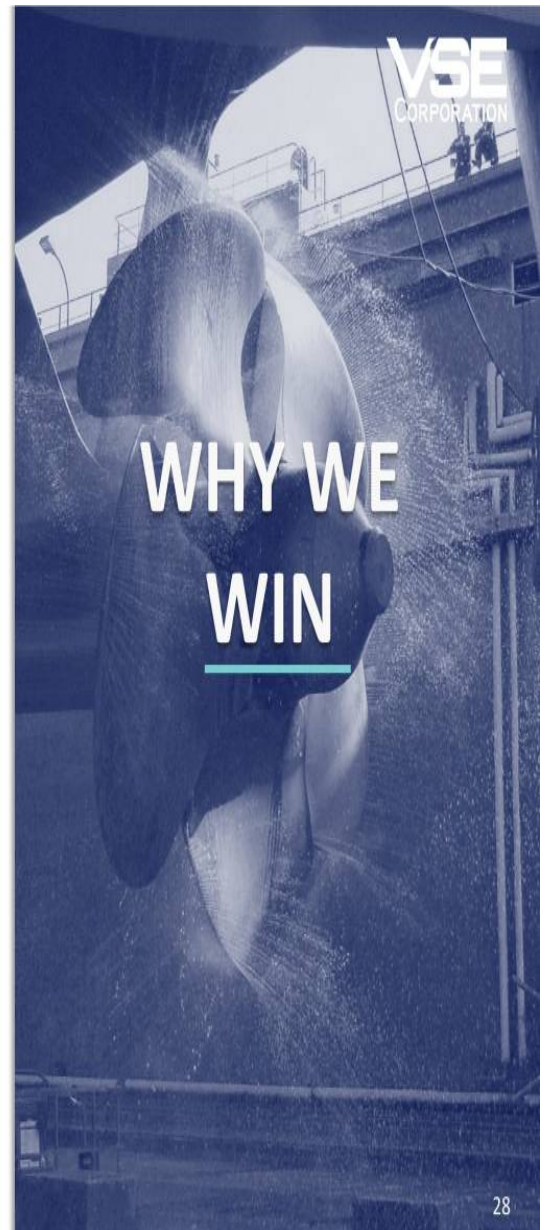
Product sourcing, supply chain and logistics for legacy and end of lifecycle assets

>> EXTENSIVE CAPABILITIES

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

>> CAPABILITY CUSTOMIZATION

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



FEDERAL & DEFENSE SEGMENT STRATEGY

>> INVESTMENT

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

>> LEVERAGE CORE COMPETENCY

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

>> MARKET EXPANSION

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

>> CAPABILITY DEVELOPMENT

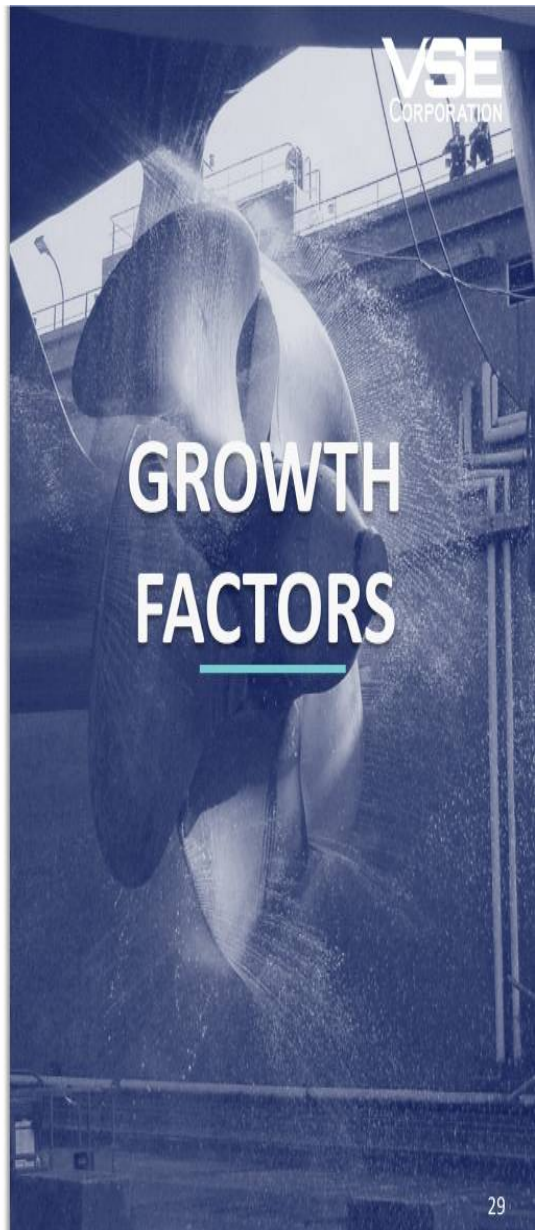
Broaden DoD logistics/supply chain offering to support market demand

>> INTERNATIONAL GROWTH

Utilize success in foreign markets to support foreign military sales opportunities

>> CONSULTING EXPANSION

IT and Energy consulting services growth



INVESTMENT OPPORTUNITY

Diversified Aftermarket/MRO Play with Stable End-Market Exposure



Experience

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

Leadership

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

Balance

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

Agile

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

Focused

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

Well-Capitalized

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

VSE CORPORATION



