

Third Quarter 2024 Results Conference Call

November 6, 2024



Forward-Looking Statements

This presentation contains statements that, to the extent they are not recitations of historical fact, constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act. All such statements are intended to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of such safe harbor provisions. "Forward-looking" statements, as such term is defined by the SEC in its rules, regulations and releases, represent VSE Corporation's (the "Company") expectations or beliefs, including, but not limited to, statements concerning its 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 speak only as of the date of this presentation and the Company undertakes no ongoing obligation, other than that imposed by law, to update these statements. These statements appear in a number of places in this presentation, and relate to, among other things, the Company's intent, belief or current expectations with respect to: its future financial condition, results of operations or prospects; our business and growth strategies; and our financing plans and forecasts. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those contained in or implied by the forward-looking statements as a result of various factors, some of which are unknown, including, without limitation the factors identified in the Company's reports filed with the SEC including its Annual Report on Form 10-K for the year ended December 31, 2023.

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, Acquisition Adjusted EBITDA, trailing-twelve month Adjusted EBITDA, net debt, adjusted net leverage, and free cash flow (FCF) 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. Acquisition Adjusted EBITDA represents Adjusted EBITDA plus Turbine Controls EBITDA for the trailing twelve months. Net debt is defined as total debt less cash and cash equivalents. Free cash flow represents operating cash flow less capital expenditures. Net leverage ratio is calculated as net debt divided by trailing twelve month Adjusted EBITDA. Adjusted Net leverage ratio is calculated as net debt divided by trailing twelve month Acquisition 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.

The Company has presented forward-looking statements regarding Adjusted EBITDA margin. This non-GAAP financial measure is derived by excluding certain amounts, expenses or income, from the corresponding financial measure determined in accordance with GAAP. The determination of the amounts that are excluded from this non-GAAP financial measure is a matter of management judgment and depends upon, among other factors, the nature of the underlying expense or income amounts recognized in a given period in reliance on the exception provided by item 10(e)(1)(i)(B) of Regulation S-K. We are unable to present a quantitative reconciliation of forward-looking Adjusted EBITDA margin to its most directly comparable forward-looking GAAP financial measure because such information is not available, and management cannot reliably predict all of the necessary components of such GAAP measure without unreasonable effort or expense. In addition, we believe such reconciliation would imply a degree of precision that would be confusing or misleading to investors. The unavailable information could have a significant impact on the company's future financial results. This non-GAAP financial measure is a preliminary estimate and is subject to risks and uncertainties, including, among others, changes in connection with quarter-end and year-end adjustments. Any variation between the company's actual results and preliminary financial data set forth above may be material.

Strategic Update: A Year of Repositioning and Focused Execution

Kellstrom Aerospace Acquisition

- **Announcement:** October 2024, VSE announced it signed a definitive agreement to acquire Kellstrom Aerospace Group, Inc. (“Kellstrom”), a leading full-service aftermarket solutions provider of value-added distribution and technical services for the commercial aerospace engine aftermarket.
- **Rationale:** The acquisition increases VSE’s exposure to commercial aerospace engine aftermarket, aligns with core OEM-centric strategy, broadens product and service offerings, expands international reach, and presents significant synergies with full integration planned.
- **Financials:** Revenue of ~\$175M and Adjusted EBITDA of ~\$20M for TTM September ’24.
- **Terms:** Total consideration of \$200M, comprising \$185M in cash and \$15M in equity.
- **Close Timing:** The acquisition is expected to close in December 2024.

Aviation

- **European Distribution Expansion:**
 - Pratt Whitney Canada EMEA Program implementation is ahead of schedule.
 - Expanding product line offerings in Europe, began with Tires in 3Q’24.
- **OEM Licensed Program Launch:**
 - The launch is outpacing expectations.
 - Fuel Control manufacturing capabilities expected to be operational in 2025.
- **Desser Aerospace Integration:**
 - U.S. Distribution completed in 3Q’24.
- **New E-Commerce Site Launch:**
 - Completed in 3Q’24, with launch product lines (legacy Desser products).
- **Turbine Controls Update:**
 - Turbine Controls (TCI): Near-term focus is on expanding capacity and increasing scope with current OEM partners.
 - Performance ahead of expectations.

Fleet

- Support USPS, following their transition to a new ERP system.
- Scale Commercial operations, while diversifying customer base.
- Strategic review in process with further updates after USPS ERP system and revenue recovery has stabilized.

Corporate

- **Completed Follow-On Equity Offering:**
 - In October 2024, VSE completed a follow-on equity offering of ~2.0M shares at \$87.00 per share.
 - Net proceeds are expected to be used to finance a significant portion of the cash consideration for the acquisition of Kellstrom.

Q3 2024 Business Segment Update

Aviation +34% Revenue Growth

- **Record quarterly sales** driven by solid execution across both revenue channels (distribution and MRO) and contributions from TCI acquisition
 - **Distribution** revenue growth driven by the expansion and scaling of new OEM partnerships, and solid program execution on existing programs
 - **MRO** revenue growth driven by an expanded portfolio of repair capabilities and contributions from TCI acquisition
- **Record profitability** driven by new distribution programs, an increase in MRO activity, contributions from TCI acquisition and new OEM licensed manufacturing program

Fleet (11)% Revenue Decline

- **Revenue decline** driven by lower USPS maintenance activity, partially offset by growth in e-commerce fulfillment and commercial fleet sales
 - **Commercial** sales growth driven by expanded product offerings and market share gains, supported by new distribution fulfillment center
 - **USPS** program revenue decline primarily driven by the conversion to a new FMIS system platform (completed in 3Q'24) resulting in a temporary reduction in maintenance related activities and reduced part requirements
- **Profitability** impacted by the decline in higher margin USPS revenue

VSE Financial Summary

	Quarter-to-Date			Year-to-Date		
	3Q'24	3Q'23	vs. 3Q'23	3Q'24	3Q'23	vs. 3Q'23
<i>(\$ in millions except EPS)</i>						
Revenue	\$273.6	\$231.4	18%	\$781.1	\$625.2	25%
Adjusted EBITDA	\$33.2	\$32.3	3%	\$96.8	\$82.4	17%
Adjusted EBITDA %	12.1%	14.0%	(1.9) pts	12.4%	13.2%	(0.8) pts
Operating Income	\$23.7	\$25.3	(6)%	\$54.0	\$62.7	(14)%
Net Income	\$11.7	\$12.1	(4)%	\$21.0	\$30.3	(31)%
Adjusted Net Income	\$13.1	\$13.8	(5)%	\$38.0	\$33.6	13%
Diluted EPS	\$0.63	\$0.80	(21)%	\$1.22	\$2.22	(45)%
Adjusted Diluted EPS	\$0.71	\$0.92	(23)%	\$2.21	\$2.46	(10)%

(excludes discontinued operations)

Revenue

- Aviation +34% and Fleet (11)%
- Aviation:** Record revenue and Adjusted EBITDA driven by strong execution on new and existing distribution programs, an expanded portfolio of MRO capabilities, and contributions from TCI acquisition
- Fleet:** Revenue decline impacted by a reduction in USPS repair activity, partially offset by strong growth in e-commerce fulfillment and commercial fleet sales

Adjusted EBITDA

- +3% in 3Q'24 vs. the prior-year period driven by record Aviation profitability, partially offset by a decline in Fleet profitability

Consolidated Performance Bridge

	Revenue	Operating Income	Adj. EBITDA	Adj. EBITDA Margin %
3Q'23 QTD	\$231.4	\$25.3	\$32.3	14.0%
Aviation	+51.2	+4.4	+7.3	+0.1 pts
Fleet	(9.0)	(6.0)	(5.4)	(1.6) pts
Corporate	--	--	(1.0)	(0.4) pts
3Q'24 QTD	\$273.6	\$23.7	\$33.2	12.1%

	Revenue	Operating Income	Adj. EBITDA	Adj. EBITDA Margin %
3Q'23 YTD	\$625.2	\$62.7	\$82.4	13.2%
Aviation	+168.5	+19.8	+27.8	+0.7 pts
Fleet	(12.6)	(11.0)	(12.3)	(1.4) pts
Corporate	--	(17.5)	(1.1)	(0.1) pts
3Q'24 YTD	\$781.1	\$54.0	\$96.8	12.4%

- AVIATION** segment revenue and profit growth supported by strong program execution on distribution programs, scaling of new programs including OEM licensed manufacturing, expansion of MRO capabilities, and contributions from TCI
- FLEET** segment revenue and profit decline driven by lower USPS parts usage associated with a decline in repair activity, partially offset by e-commerce fulfillment and commercial fleet sales growth

(excludes discontinued operations)

Aviation Segment

(\$ in millions)	Quarter-to-Date			Year-to-Date		
	3Q'24	3Q'23	vs. 3Q'23	3Q'24	3Q'23	vs. 3Q'23
Revenue	\$203.6	\$152.4	34%	\$558.9	\$390.3	43%
Adjusted EBITDA	\$32.6	\$25.3	29%	\$91.3	\$63.5	44%
Adjusted EBITDA %	16.0%	16.6%	(0.6) pts	16.3%	16.3%	-
Operating income (loss)	\$25.4	\$21.0	21%	\$72.2	\$52.4	38%
<u>Revenue by Type¹:</u>						
Distribution	\$120.6	\$107.6	12%	\$349.8	\$278.0	26%
Repair (MRO)	\$83.0	\$44.7	86%	\$209.1	\$112.3	86%

Y/Y Comparisons:

- Revenue +34% to a record \$204M in 3Q'24 vs. the prior-year period, driven by strong execution on new and existing distribution programs, an expanded portfolio of MRO capabilities, and contributions from the TCI acquisition
- Distribution and MRO revenue increased 12% and 86%, respectively, in 3Q'24 vs. the prior-year period
- Adjusted EBITDA increased 29% to a record \$33M in 3Q'24; Adjusted EBITDA margin of 16% was negatively impacted by lower margin TCI contributions

FY 2024 Updated Assumptions:

- Revenue Growth: +39-41% Y/Y
- Adjusted EBITDA %: 15.5-16.5%

¹ Revenue by Type, when aggregated, may not reconcile to total revenue due to rounding.

Fleet Segment

(\$ in millions)	Quarter-to-Date			Year-to-Date		
	3Q'24	3Q'23	vs 3Q'23	3Q'24	3Q'23	vs 3Q'23
Revenue	\$70.0	\$79.0	(11)%	\$222.3	\$234.8	(5)%
Adjusted EBITDA	\$3.8	\$9.2	(59)%	\$14.6	\$26.9	(46)%
Adjusted EBITDA %	5.4%	11.6%	(6.2) pts	6.6%	11.5%	(4.9) pts
Operating income	\$2.5	\$8.5	(71)%	\$11.3	\$22.3	(49)%
<u>Revenue by Type¹:</u>						
Other Government	\$25.1	\$41.6	(40)%	\$86.3	\$126.8	(32)%
Commercial	\$44.8	\$37.4	20%	\$135.9	\$108.0	26%

Y/Y Comparisons:

- Revenue decreased (11)% to \$70M in 3Q'24 vs. the prior-year period, driven by a decrease in USPS repair activity, partially offset by strong growth in e-commerce fulfillment and commercial fleet sales
- Commercial customers accounted for 64% of segment revenue in 3Q'24, vs. 47% in prior-year period, as a percentage of total Fleet segment sales
- Adjusted EBITDA decreased (59)% to \$4M vs. the prior-year period, primarily driven by lower USPS revenue

FY 2024 Updated Assumptions:

- Revenue Decline: (5)-(10)% Y/Y
- Adjusted EBITDA %: 6-8%

¹ Revenue by Type, when aggregated, may not reconcile to total revenue due to rounding.

Balance Sheet Optionality

(\$ in millions)	Quarter-to-Date		
	3Q'24	2Q'24	1Q'24
Operating Cash Flow	\$10	\$(18)	\$(79)
Free Cash Flow	\$4	\$(21)	\$(87)
Debt (less Cash)	\$442	\$445	\$471
Net Leverage Ratio	3.5x	3.5x	3.8x
Adjusted Net Leverage Ratio ⁽¹⁾	3.3x	3.2x	3.7x

- Generated \$4M of free cash flow in 3Q'24
- Adjusted Net Leverage Ratio is 3.3x as of 3Q'24
- Adjusted for the Kellstrom acquisition and the October equity raise, 3Q'24 Adjusted Net Leverage Ratio is ~3x
- Stronger free cash flow generation is expected in 4Q'24 vs. 3Q'24, driven by ongoing execution on 1H'24 strategic investments

(1) Adjusted Net Leverage Ratio includes Turbine Controls EBITDA for the trailing twelve months that are not included in historical results

2024 Priorities to Growth and Accelerate Transformation Strategy

Aviation Segment

- > European Expansion: Pratt & Whitney EMEA Program and Product Line Expansion Implementations
- > OEM Licensed Manufacturing Program Launch and Implementation
- > Desser Distribution and MRO Integrations
- > Turbine Controls Growth and Integration Planning

Fleet Segment

- > Leadership Transition
- > Scale Distribution and E-commerce Fulfillment Center in Olive Branch, MS
- > Support USPS's Base of Legacy and New Vehicles Following the Fleet Management Information System Conversion
- > Focus on Diversification Through Several New Online Retailers

Financial Discipline

- > Drive Above-Market Revenue Growth and Deliver Improved Profitability in Aviation
- > Generate Above-Market Growth for Commercial Fleet While Managing Near-Term USPS Demand Volatility
- > Drive Stronger Free Cash Flow in 4Q'24 Further Reducing Net Leverage

Appendix

GAAP to Non-GAAP Reconciliations

EBITDA and Adjusted EBITDA

(\$ in thousands, except per share data)

Three months ended September 30,

Nine months ended September 30,

	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% Change	2024	2023	% Change
Net income (loss)	\$ 11,650	\$ 12,111	(3.8)%	\$ 20,973	\$ 30,318	(30.8)%
Interest expense, net	8,983	8,459	6.2%	27,996	21,805	28.4%
Income taxes	3,065	4,694	(34.7)%	5,035	10,554	(52.3)%
Amortization of intangible assets	4,809	3,203	50.1%	12,550	10,743	16.8%
Depreciation and other amortization	2,734	1,836	48.9%	7,561	4,869	55.3%
EBITDA	31,241	30,303	3.1%	74,115	78,289	(5.3)%
Non-recurring professional fees	-	300	(100)%	-	300	(100)%
Acquisition, integration and restructuring costs	1,973	1,700	16.1%	6,010	3,800	58.2%
Severance costs	372	-	-%	372	-	-%
Lease abandonment and termination (benefits) costs	(612)	-	-%	12,245	-	-%
Divestiture-related restructuring	178	-	-%	4,039	-	-%
Adjusted EBITDA	\$ 33,152	\$ 32,303	2.6%	\$ 96,781	\$ 82,389	17.5%

(excludes discontinued operations)

GAAP to Non-GAAP Reconciliations

Adjusted Net Income and Adjusted EPS (Diluted)

(\$ in thousands, except per share data)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% Change	2024	2023	% Change
Net (loss) Income from continuing operations	\$ 11,650	\$ 12,111	(3.8)%	\$ 20,973	\$ 30,318	(30.8)%
Adjustments:						
Non-recurring professional fees	-	300	(100)%	-	300	(100)%
Debt issuance costs	-	266	(100)%	-	266	(100)%
Acquisition, integration and restructuring costs	1,973	1,700	16.1%	6,010	3,800	58.2%
Severance costs	372	-	-%	372	-	-%
Lease abandonment and termination (benefits) costs	(612)	-	-%	12,245	-	-%
Divestiture-related restructuring costs	178	-	-%	4,039	-	-%
	13,561	14,377	(5.7)%	43,639	34,684	25.8%
Tax impact on adjusted items	(477)	(566)	(15.7)%	(5,655)	(1,090)	418.8%
Adjusted Income from continuing operations	\$ 13,084	\$ 13,811	(5.3)%	\$ 37,984	\$ 33,594	13.1%
Weighted Average Diluted Shares	18,479	15,050	22.8%	17,212	13,639	26.2%
Adjusted EPS (Diluted)	\$ 0.71	\$ 0.92	(22.8)%	\$ 2.21	\$ 2.46	(10.2)%

GAAP to Non-GAAP Reconciliations

Segment EBITDA and Adjusted EBITDA

(\$ in thousands)	Three months ended September 30,		
	2024	2023	% Change
Aviation			
Operating income	\$ 25,435	\$ 20,951	21.4%
Depreciation and amortization	6,951	4,329	60.6%
EBITDA	32,386	25,280	28.1%
Acquisition, integration and restructuring costs	150	40	275.0%
Severance costs	58	—	—%
Adjusted EBITDA	\$ 32,594	\$ 25,320	28.7%

Fleet			
Operating income	\$ 2,471	\$ 8,531	(71.0)%
Depreciation and amortization	710	662	7.3%
EBITDA	3,181	9,193	(65.4)%
Acquisition, integration and restructuring costs	291	—	—%
Severance costs	314	—	—%
Adjusted EBITDA	\$ 3,786	\$ 9,193	(58.8)%

Nine months ended September 30,			
2024	2023	% Change	
\$ 72,214	\$ 52,397	37.8%	
17,919	11,016	62.7%	
90,133	63,413	42.1%	
1,059	40	2,547.5%	
58	—	—%	
\$ 91,250	\$ 63,453	43.8%	

\$ 11,299	\$ 22,284	(49.3)%	
2,188	4,452	(50.9)%	
13,487	26,736	(49.6)%	
795	158	403.2%	
314	—	—%	
\$ 14,596	\$ 26,894	(45.7)%	

(excludes discontinued operations)

GAAP to Non-GAAP Reconciliations

Balance Sheet

Reconciliation of Operating Cash Flow to Free Cash Flows

<i>(\$ in thousands)</i>	September 30, 2024	June 30, 2024	March 31, 2024
Net cash (used in) provided by operating activities	\$10,176	\$(17,528)	\$(79,060)
Capital expenditures	(5,765)	(3,945)	(7,729)
Free Cash Flow	\$4,411	\$(21,473)	\$(86,789)

Reconciliation of Debt to Net Debt

<i>(\$ in thousands)</i>	September 30, 2024	June 30, 2024	March 31, 2024
Principal amount of debt	\$453,000	\$466,500	\$484,946
Debt issuance costs	(2,659)	(2,992)	(3,324)
Cash and cash equivalents	(7,907)	(18,993)	(10,569)
Net Debt	\$442,434	\$444,515	\$471,053

Net Leverage Ratio

<i>(\$ in thousands)</i>	September 30, 2024	June 30, 2024	March 31, 2024
Net Debt	\$442,434	\$444,515	\$471,053
TTM Adjusted EBITDA	128,225	127,376	122,515
Net Leverage Ratio	3.5 x	3.5 x	3.8 x
TTM Acquisition Adjusted EBITDA ⁽¹⁾	\$134,970	\$138,944	\$128,481
Adjusted Net Leverage Ratio	3.3 x	3.2 x	3.7 x

(1) TTM Acquisition Adjusted EBITDA includes Turbine Controls EBITDA for the trailing twelve months that are not included in historical results.