PAE

First Quarter 2020 Results

May 07, 2020

FORWARD-LOOKING STATEMENTS AND NON-GAAP FINANCIAL MEASURES

This presentation may contain a number of "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about PAE's possible or assumed future results of operations, financial results, business strategies, debt levels, competitive position, industry environment, potential growth opportunities, potential impact of COVID-19, effects of regulation, backlog, estimation of resources for contracts, risks related to IDIQ contracts, strategy for and management of growth, needs for additional capital, risks related to U.S. government contracting generally, including congressional approval of appropriations, and bid protests. These forward-looking statements are based on PAE's management's current expectations, estimates, projections and beliefs, as well as a number of assumptions concerning future events. When used in this presentation, the words "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose" and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside PAE's management's control, that could cause actual results to differ materially from the results discussed in the forward-looking statements.

Forward-looking statements included in this presentation speak only as of the date of this presentation. PAE does not undertake any obligation to update its forward-looking statements to reflect events or circumstances after the date of this presentation except as may be required by the federal securities laws.

This presentation contains non-GAAP financial measures. For more information about our use of non-GAAP financial measures see the appendix.

In this presentation, unless the context indicates otherwise, the terms "PAE" and the "company" refer to PAE Incorporated and its subsidiaries taken as a whole

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Q1 2020 KEY HIGHLIGHTS

Strong Execution

- Strong Adjusted EBITDA margins (6.7%)
- Lowered net debt leverage to 3.1x on 2020E Adjusted EBITDA
- Based on outlook for the remainder of the year and bolstered by recent wins, re-iterating 2020 financial guidance

Significant Business Development Progress

- Quarterly net bookings of $654 million (1.1x revenue)
- Recent awards bolster new business and recompete requirements for guidance
- Continue to expand IDIQ portfolio

Re-iterating 2020 Financial Guidance [1,2]

- Revenue: $2,750M to $2,850M
- Adjusted EBITDA: $170M to $178M[1]

Q1 2020 REVENUE

$617.3 million

ADJUSTED EBITDA

$41.6 million (6.7% margin)

SOLID BACKLOG

$6.4 billion

FOCUSED ON STRENGTHENING THE BALANCE SHEET

Increasing FCF expectation to $100 million

MANAGEABLE IMPACT FROM COVID-19

CAPEX-LIGHT BUSINESS MODEL

[1] The Company is not providing a reconciliation for these estimates based on the unreasonable efforts exception for forward-looking information. See slide 10 for more information.

[2] Projections use PAE estimates. With respect to projections, see slide 2 "Forward-Looking Statements"

PAE market segments provide resiliency and largely immune from recent business disruption

Limited Impact to Date from COVID-19

- Logistics operations have been impacted
- Certain training programs have been rescheduled to 2nd half of the year
- Visa application processing has temporarily halted
- In limited circumstances, customer sites have temporarily closed due to infections and subsequent cleaning
- About 95% of the direct labor workforce is working and billable

COVID-19 Financial Impact

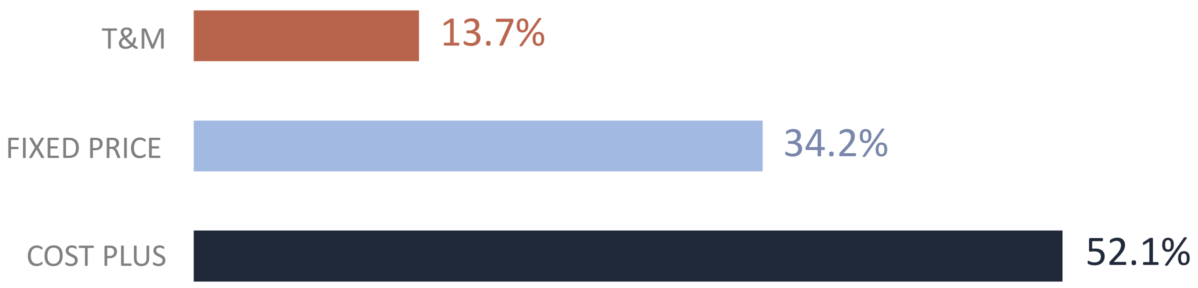
- 1st quarter 2020 revenue negatively impacted by approximately $14 million & adjusted EBITDA negatively impacted by less than $1 million
- 2nd quarter revenue expected to be negatively impacted by a comparable monthly run rate impact as Q1, partially offset by revenue and profit recoveries provided through the CARES act.

Source: PAE management

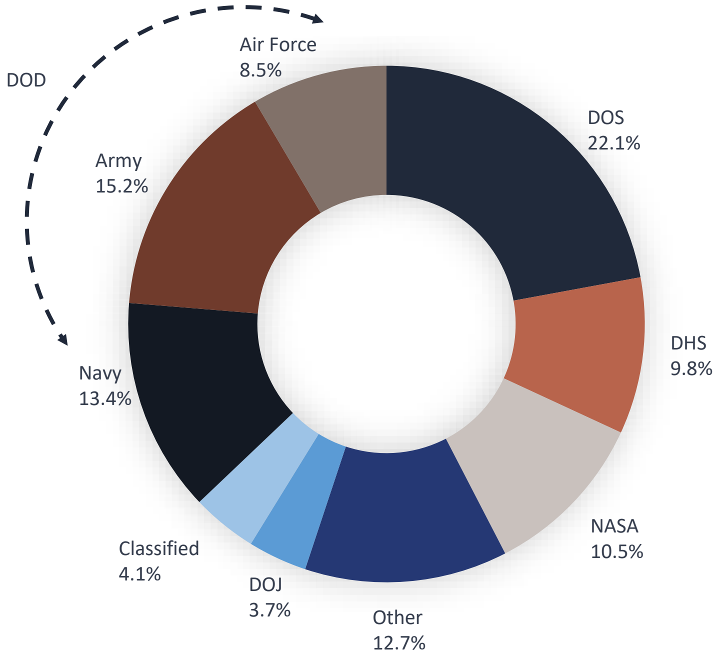
DIVERSE PORTFOLIO OF CONTRACTS

CONTRACT DIVERSITY ENABLES REVENUE STABILITY

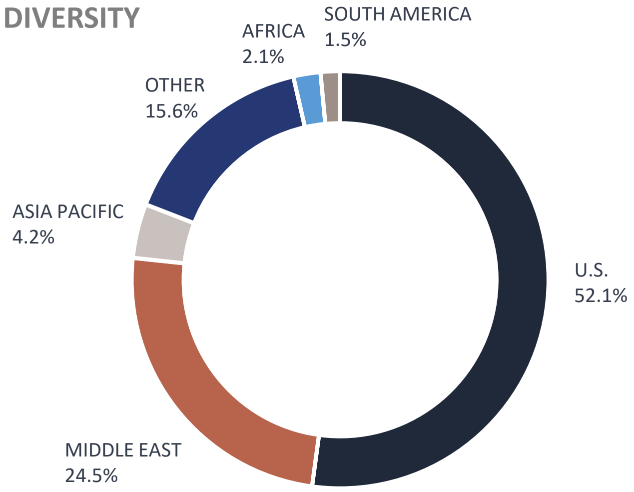
CONTRACT TYPE



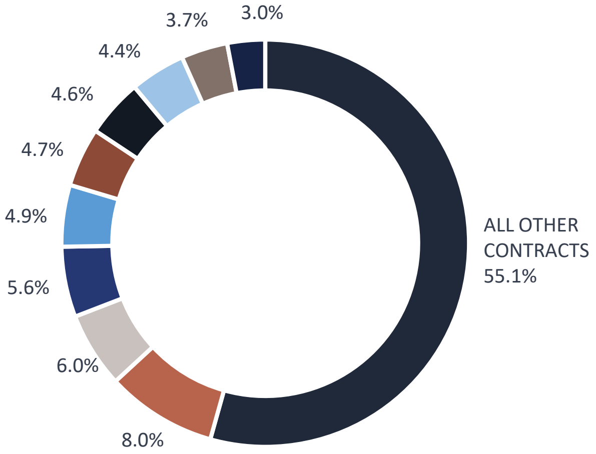
PAE CUSTOMER BREAKOUT



GEOGRAPHIC DIVERSITY



CONTRACT DIVERSITY



PRIME VS. SUB-CONTRACTS

PRIME: 94.7%

SUB: 5.3%

Source: PAE management; based on 2020 plan

PAE PIPELINE

POSITIONED TO CONTINUE CAPITALIZING ON ATTRACTIVE GROWTH PROSPECTS

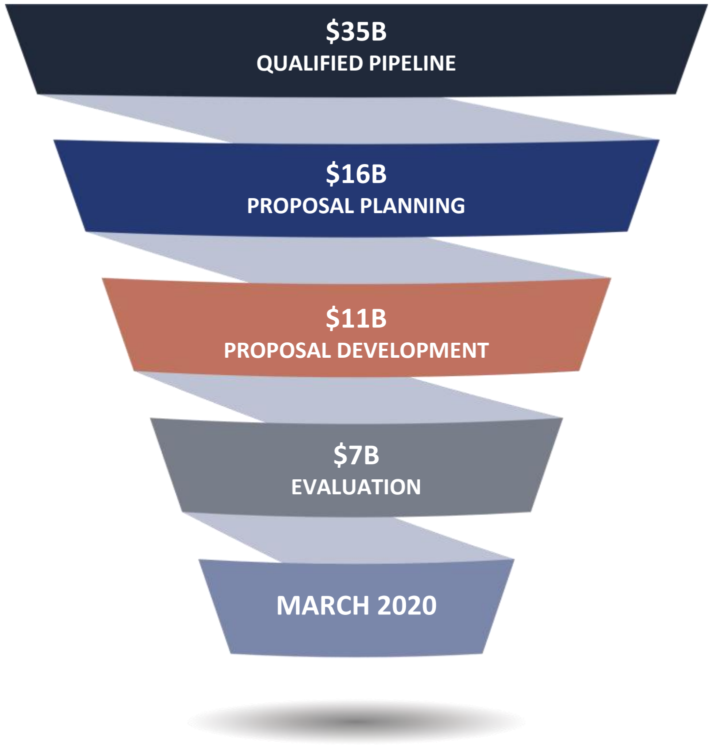
2020 METRICS

Qualified Pipeline - ~$35B
2020 Est. Proposal Submissions – $12B+
Pending Awards @ 03/29/2020 - ~$7B

2019 ACTUALS

2019 Proposals Submitted - $13B
2019 Bookings - $3.1B; 1.1x Revenue

PAE has a robust pipeline of opportunities which does not include significant **IDIQ** value potential.

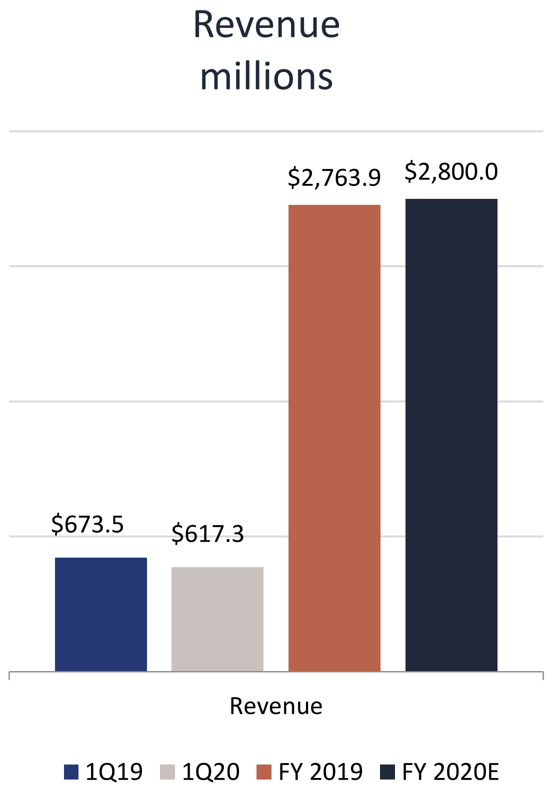


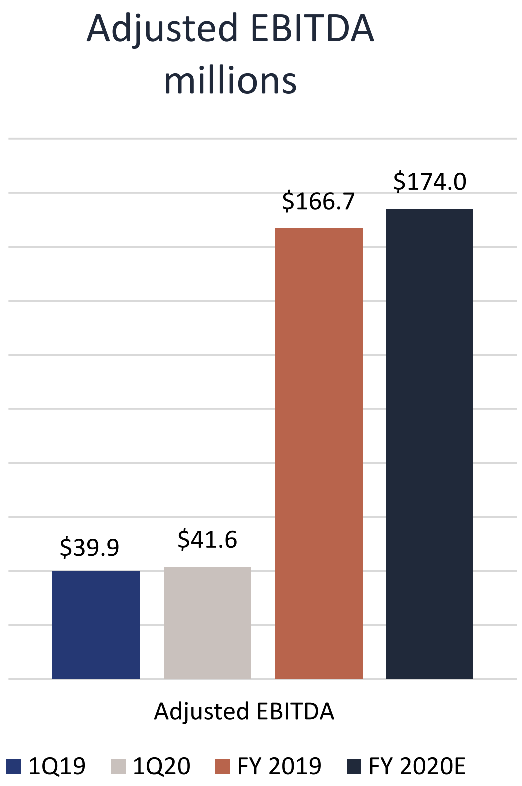
$35B qualified pipeline does not include **$20B** of IDIQ ceiling value

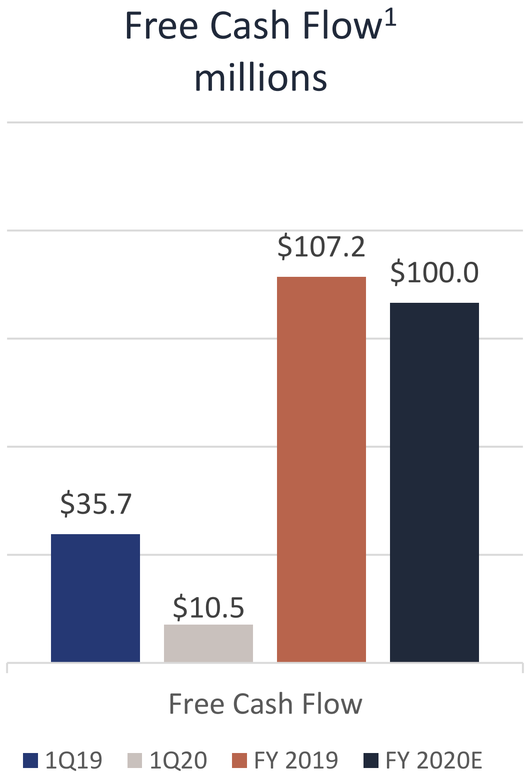
Source: PAE management

FIRST-QUARTER 2020 FINANCIAL HIGHLIGHTS

AMIDST A CHALLENGING ENVIRONMENT, PAE DELIVERED SOLID FINANCIAL AND OPERATING RESULTS







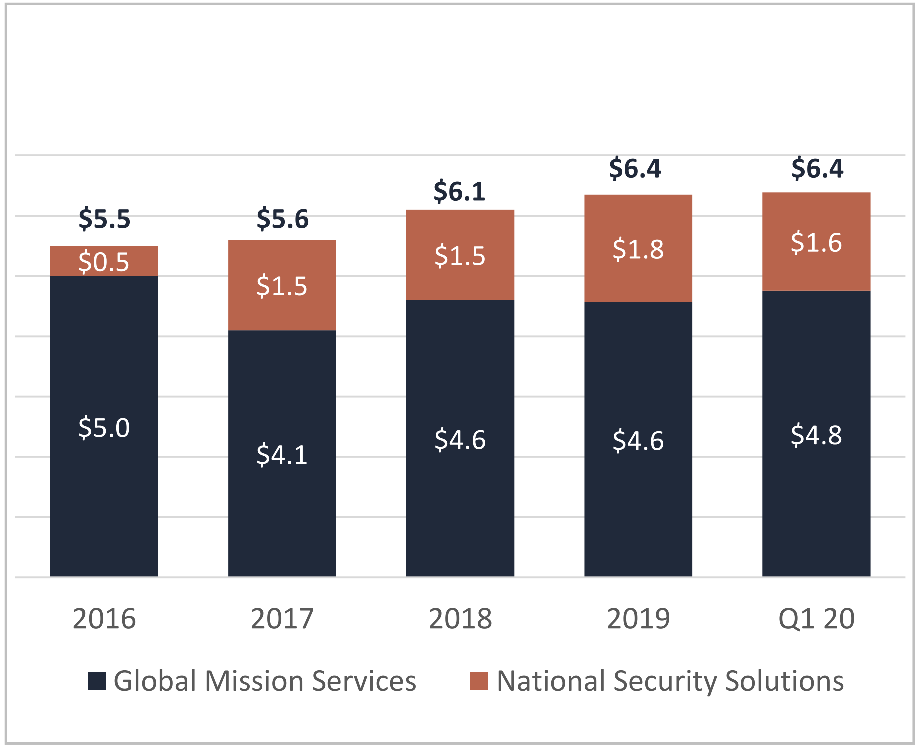
- Q1 Revenue driven by impact of COVID-19, lower non-labor revenue on existing contracts, re-compete loss of certain contracts & partially offset by new business
- Q1 adjusted EBITDA of $41.6 million increased 4% over Q1 2019 performance
- Free Cash Flow, normalized for one-time M&A fees would be $34.5 million for Q1 2020; FY 2019 is higher due to increased cash collections following the end of the government shutdown

[1] Free Cash Flow defined as Cash Flow provided by operating activities less Capex

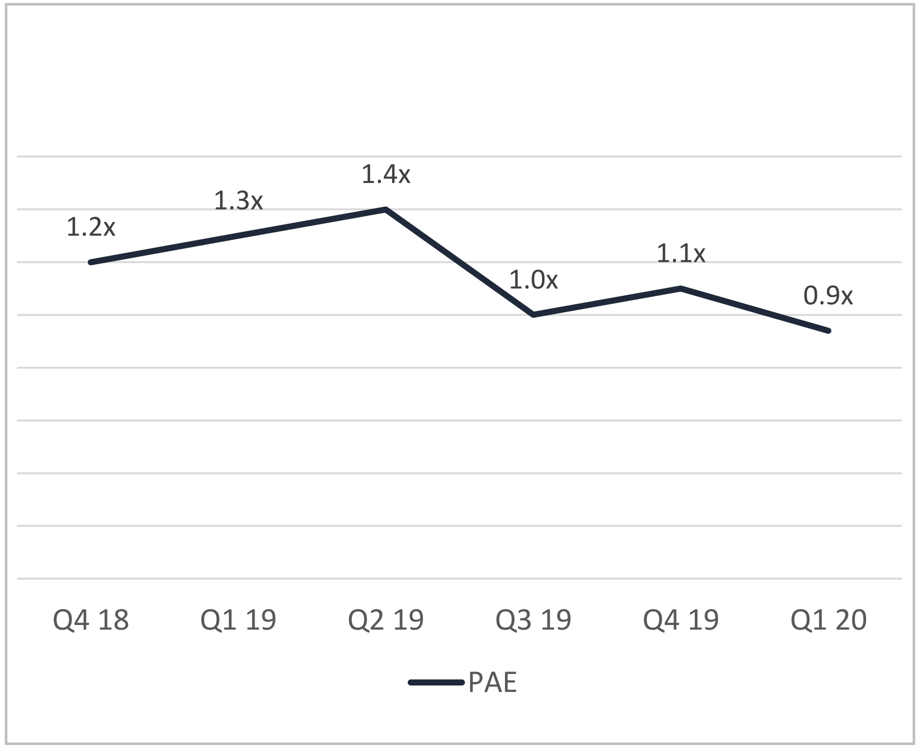
BACKLOG AND BOOK TO BILL

ROBUST BACKLOG SUPPORTS LONG-TERM VISIBILITY INTO RECURRING AND GROWING REVENUE BASE

TOTAL BACKLOG ($B)



TTM BOOK-TO-BILL RATIO



Source: PAE management

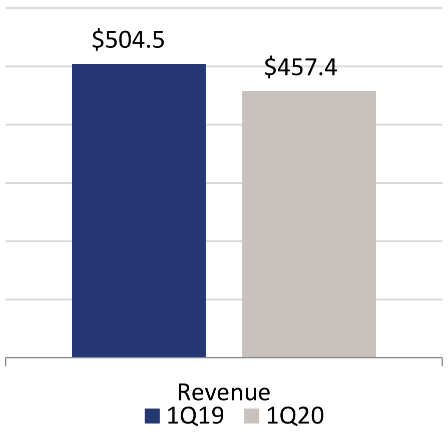
1st QUARTER 2020 BUSINESS SEGMENT HIGHLIGHTS

Global Mission Services

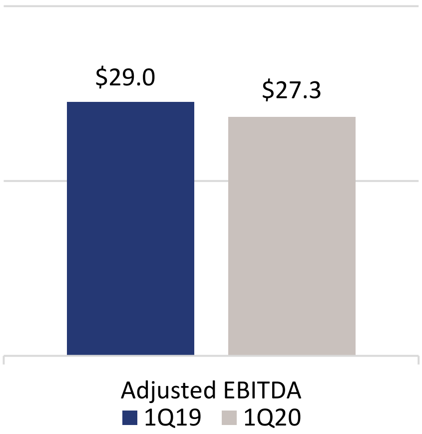
Solid margin expansion

- GMS maintains a high backlog to sales coverage ratio of 2.3x
- Revenues impacted by lower non-labor revenue on existing programs and COVID-19; full-year plan remains on track
- Adjusted operating income margins driven by favorable revenue mix

Revenue
millions



Adjusted Operating Income
millions

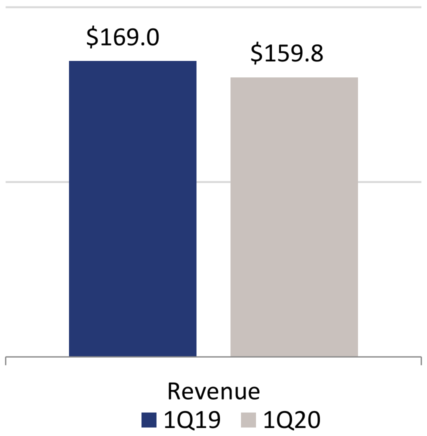


National Security Solutions

Increased profitability on new business programs

- NSS maintains a high backlog to sales coverage ratio of 2.3x
- Revenues impacted by the recompete loss of certain contracts and COVID-19; partially offset by on-contract growth and new business
- Adjusted operating income improved to $14.3 million in the quarter driven by improved performance on existing contracts & increased profitability on new business

Revenue
millions



Adjusted Operating Income
millions

RE-ITERATING 2020 FINANCIAL GUIDANCE

	Fiscal 2020 Guidance [1]
Revenue	$2,750M to $2,850M
Adjusted EBITDA	$170M to $178M

In Millions	2018	2019	2020**	19 vs. 18 Growth	20 vs 19 Growth
Adjusted EBITDA (as reported)	157.4	166.7	174.0	5.9%	4.4%
Less: Public Company Costs [2]	(3.0)	(3.0)	-	-	-
Pro Forma Adjusted EBITDA	154.4	163.7	174.0	6.0%	6.3%

** Represents mid-point of guidance

- Solid revenue growth driven by backlog and strong pipeline of new business
- Strong pro forma adjusted EBITDA growth of more than $10M at guidance
- Solid margin expansion – 30bps on a pro forma basis including public company costs – driven primarily by weighting of NSS contribution

1 The company is not providing a quantitative reconciliation of adjusted EBITDA or pro forma adjusted EBITDA in reliance on the "unreasonable efforts" exception for forward-looking non-GAAP measures set forth in SEC rules because certain financial information, the probable significance of which cannot be determined, is not available and cannot be reasonably estimated without unreasonable effort and expense. In this regard, the company does not provide a reconciliation of forward-looking adjusted EBITDA or pro forma adjusted EBITDA to GAAP net income, due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation. Because certain deductions for non-GAAP exclusions used to calculate projected net income may vary significantly based on actual events, the company is not able to forecast on a GAAP basis with reasonable certainty all deductions needed in order to provide a GAAP calculation of projected net income at this time. The amounts of these deductions may be material and, therefore, could result in projected GAAP net income being materially less than is indicated by estimated adjusted EBITDA and pro forma adjusted EBITDA.

2 Estimated public company related expenses of being an SEC reporting and Nasdaq-listed public company, such as D&O insurance, increased legal and accounting expenses and investor relations related expenses, have been deducted from 2018 and 2019 Adjusted EBITDA to better illustrate year-over-year growth. These expenses will not be added back to Adjusted EBITDA, beginning in Q1 2020. The anticipated add-backs beginning Q1 2020 will be limited to stock-based compensation, acquisition and integration related costs and extraordinary non-recurring expenses.

ADDITIONAL 2020 GUIDANCE ASSUMPTIONS

- Basic share count of approximately 92 million shares[1]
- Effective tax rate reduced to 19%; zero federal cash taxes in 2020
- Full-year 2020 depreciation and amortization expected to be approximately $43 million
- Full-year 2020 cash interest expense expected to be about $50 million
- **Increasing full-year 2020 free cash flow[2] expectation to approximately $100 million**

[1] Basic share count excludes warrants, earn-out shares and management incentive shares

[2] The company is not providing a quantitative reconciliation of free cash flow in reliance on the "unreasonable efforts" exception for forward-looking non-GAAP measures set forth in SEC rules because certain financial information, the probable significance of which cannot be determined, is not available and cannot be reasonably estimated without unreasonable effort and expense. In this regard, the company does not provide a reconciliation of forward-looking free cash flow to GAAP cash flows provided by operating activities and GAAP cash used in investing activities, due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation. Because certain line items used to calculate projected cash flows provided by operating activities and cash used in investing activities may vary significantly based on actual events, the company is not able to forecast on a GAAP basis with reasonable certainty all line items needed in order to provide a GAAP calculation of projected free cash flow at this time.

PAE CAPITAL STRUCTURE

PAE CAPITALIZATION (AMOUNTS IN MILLIONS)

CAPITALIZATION	03/29/20	OBSERVATIONS
Asset-Based Revolving Loan Credit Facility	\$0	October 2021 Maturity; LIBOR + 175 to 225 bps
1st Lien Term Loan	\$507	October 2022 Maturity; LIBOR + 550 bps
2nd Lien Term Loan	\$129	October 2023 Maturity; LIBOR + 950 bps
Total Debt	\$636	
Less:		
Cash & Equivalents	\$100	
Net Debt	\$536	
Market Capitalization (@\$8.50/share as of 05/06/20)	\$782	

INVESTMENT HIGHLIGHTS

STRONG PLATFORM DELIVERING PREDICTABLE PERFORMANCE WITH ATTRACTIVE UPSIDE OPPORTUNITY

- PAE has a well-established platform and brand recognition
- End markets provide a resilient and stable revenue stream, largely immune to business disruption
- Highly visible forward growth story supported by strong end-market dynamics, robust backlog and hearty M&A pipeline
- Diversified customer base with long-term contracts provides stable and predictable performance
- Solid organic growth, proven material margin expansion strategy, led by a world-class management team
- Exceptionally strong free cash flow, delivering acquisition capacity and/or rapid deleveraging

PAE

Appendix

NON-GAAP FINANCIAL MEASURES

The Company uses EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted operating income per segment and adjusted operating income margin per segment as supplemental non-GAAP measures of performance. PAE defines EBITDA as net income excluding (i) interest expense, (ii) provision for or benefit from income taxes and (iii) depreciation and amortization. Adjusted EBITDA and adjusted operating income per segment exclude certain amounts included in EBITDA as provided in the reconciliations provided herein. Adjusted EBITDA is equal to the sum of adjusted operating income for each segment. Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenues expressed as a percentage and adjusted operating income margin is calculated as adjusted operating income divided by revenues expressed as a percentage.

For 2020 and 2019, the Company's net income was impacted by certain events that do not reflect the cost of our operations and which may affect the period-over-period assessment of operating results. The non-GAAP financial measures demonstrate the impact of these events.

During 2019 substantially all the assets of ISR were sold. The Company believes that it is helpful for investors to be able to evaluate the performance of PAE's underlying business based on excluding ISR's operations during the year. To calculate the loss, adjusted EBITDA and adjusted operating income without ISR, the Company removed ISR from its revenue and loss metrics for the first quarter of 2019.

These non-GAAP measures of performance are used by management to conduct and evaluate its business during its regular review of operating results for the periods presented. Management and the Company's Board utilize these non-GAAP measures to make decisions about the use of the Company's resources, analyze performance between periods, develop internal projections and measure management performance. PAE believes these non-GAAP measures are useful to investors in evaluating the Company's ongoing operating and financial results and understanding how such results compare with the Company's historical performance.

In addition to the above non-GAAP financial measures, the Company has included backlog, net bookings, and book-to-bill ratio in this presentation. Backlog is an operational measure representing the estimated amount of future revenues to be recognized under negotiated contracts and task orders as work is performed and excludes contract awards which have been protested by competitors until the protest is resolved in our favor. Net bookings are an operational measure representing the change in backlog between reporting periods plus reported revenue for the period and book-to-bill ratio is an operational measure representing net bookings divided by reported revenues for the same period. We believe backlog, net bookings and book-to-bill ratio are useful metrics for investors because they are an important measure of business development performance and revenue growth. These metrics are used by management to conduct and evaluate its business during its regular review of operating results for the periods presented.

NON-GAAP ADJUSTED EBITDA RECONCILIATION
Company

Reconciliation of GAAP net income to Adjusted EBITDA, a non-GAAP Measure - Company

(in thousands)

	Three Months Ended		
	March 29, 2020	**March 31, 2019**	**Change**
Net loss attributed to PAE Incorporated	$ (4,943)	$ (5,719)	$ 776
Interest expense, net	20,948	22,660	(1,712)
Provision for taxes	(8,714)	(3,147)	(5,567)
Depreciation and amortization	10,630	11,667	(1,037)
M&A costs	23,980	114	23,866
Disposal of assets	—	5,643	(5,643)
Non-core expenses (1)	258	5,508	(5,250)
Non-cash items (2)	—	826	(826)
Forward loss accruals (3)	—	1,954	(1,954)
Sponsor fees (4)	—	1,262	(1,262)
Other (5)	(514)	(914)	400
Adjusted EBITDA	$ 41,645	$ 39,854	$ 1,791
Adjusted EBITDA margin	6.7%	5.9%	

REPORTABLE SEGMENTS NON-GAAP ADJUSTED EBITDA RECONCILIATION

GMS Segment

Reconciliation of GAAP operating income to Adjusted operating income, a non-GAAP Measure - GMS

(in thousands)

	Three Months Ended		
	March 29, 2020	March 31, 2019	Change
Operating income	$ 12,603	$ 25,792	$ (13,189)
Corp operating loss allocation (6)	(7,050)	(7,980)	930
Corporate NCI allocation	(222)	(603)	381
Depreciation and amortization	6,151	6,612	(461)
M&A costs	15,912	85	15,827
Disposal of assets	—	—	—
Non-core expenses (1)	191	3,869	(3,678)
Non-cash items (2)	—	619	(619)
Forward loss accruals (3)	—	385	(385)
Sponsor fees (4)	—	945	(945)
Other (5)	(272)	(685)	413
Adjusted operating income	$ 27,313	$ 29,039	$ (1,726)
Adjusted operating income margin	6.0%	5.8%	

REPORTABLE SEGMENTS NON-GAAP ADJUSTED EBITDA RECONCILIATION
NSS Segment

Reconciliation of GAAP operating income to Adjusted operating income, a non-GAAP Measure - NSS

(in thousands)

	Three Months Ended		
	March 29, 2020	March 31, 2019	Change
Operating loss	$ 4,367	$ (786)	$ 5,153
Corp operating loss allocation (6)	(2,463)	(2,673)	210
Corporate NCI allocation	56	43	13
Depreciation and amortization	4,479	5,055	(576)
M&A costs	8,068	28	8,040
Disposal of assets	—	5,643	(5,643)
Non-core expenses (1)	67	1,639	(1,572)
Non-cash items (2)	—	207	(207)
Forward loss accruals (3)	—	1,569	(1,569)
Sponsor fees (4)	—	317	(317)
Other (5)	(242)	(229)	(13)
Adjusted operating income	$ 14,332	$ 10,813	$ 3,519
Adjusted operating income margin	9.0%	6.4%	

(1) Non-core expenses include certain professional fees, gain/loss on disposal of fixed assets, settlements and certain severance costs
(2) Non-cash items include idle facilities charges for facilities the Company no longer occupies, pension curtailment costs and unrealized FX gains/losses.
(3) Forward loss accruals include adjustments related to future expected losses recognized in the current period.
(4) Sponsor fees include management fees and out of pocket expenses paid to the Company's private equity sponsor for general management, transactional, financial and other corporate advisory services.
(5) Other costs include adjustments related to adjustments to offset capitalized internal labor and state income taxes that were not captured in reported income tax expense.
(6) Corporate operating loss allocation includes certain selling, general and administrative, depreciation and amortization costs that cannot be assigned to a specific segment; this cost is allocated based on proportionate segment revenues for the period in which the cost is incurred.

FREE CASH FLOW CONVERSION RECONCILIATION

(dollars in thousands)	Three Months Ended March 29, 2020
Adjusted EBITDA	$ 41,645
Expenditures for property and equipment	404
Free Cash Flow	41,241
Free Cash Flow Conversion	99.0%

Free Cash Flow Conversion is the ratio of free cash flow to Adjusted EBITDA and is expressed as a percentage.