

VSEC Continues to Engineer Growth, Value and Cash

[Home](#) | [Print](#) | [PDF Version](#)

VSE Corporation (nasdaq: VSEC)

VSE Corporation (nasdaq: VSEC) provides diversified services to the engineering, energy and environment, defense, and homeland security markets from more than 20 locations across the U.S. and around the world. VSE is an ISO 9001:2000-registered professional services company that has provided more than \$2 billion in diversified engineering and technical support services to the U.S. Government. The company has been ranked among the top 100 defense contractors, top 10 foreign military sales contractors, and top 50 Navy contractors in the nation. Operations are conducted within three reporting segments: the Federal Group, the International Group, and the Energy and Environmental Group.

The Federal Group provides engineering, technical, management, integrated logistics support, and information technology services to all U.S. military services and other government agencies. It consists of four operating divisions:

1. Communications and Electronics Division (CED) is dedicated to supporting the Army's Communications and Electronics Command (CECOM) in the management and execution of the Rapid Response (R2) Program, which supports clients across DoD and the Federal Government.
2. Engineering and Logistics Division (ELD) provides full lifecycle engineering, logistics, maintenance, and refurbishment services to extend and enhance the life of existing equipment principally supporting the U.S. Army, Army Reserve, and Army National Guard.
3. Management Sciences Division (MSD) provides nationally and internationally recognized experts in product and process improvement, supporting a variety of government and commercial clients.
4. Systems Engineering Division (SED) provides comprehensive systems and software engineering, logistics, and prototyping services to DoD, principally the U.S. Army, Air Force, and Marine Corps combat and combat support systems.

The International Group provides engineering, industrial, logistics, and foreign military sales services to the U.S. military and numerous foreign governments. It consists of three operating divisions:

1. BAV Division provides assistance to the U.S. Navy in executing its Foreign Military Sales (FMS) Program for surface ships sold, leased or granted to foreign countries by providing program management, engineering, technical support, and logistics services for ship reactivations and transfers, as well as follow-on support.
2. Fleet Maintenance Division (FMD) provides global field engineering, logistics, maintenance, and information technology services to the U.S. Navy and Air Force, including fleet-wide ship and aircraft support programs.
3. VCG Division provides the U.S. Coast Guard with FMS support and lifecycle support for vessels transferred to foreign governments.

The Energy and Environmental Group provides high-level consulting services in the field of energy and environmental management. The Energy and Environmental Group includes VSE's wholly owned subsidiary, Energetics, Inc., a full-service energy and environmental consulting company providing technical and management support in all aspects of technology research, development, and demonstration.



Symbol:	nasdaq: VSEC
Stock Price:	\$26.61
Marketcap:	\$130,110,500
Enterprise:	\$120,716,500
Shares (dil):	4,889,534
Insiders:	2,136,634
Institutions:	2,432,528
Float:	320,372
Short Int:	2,364
Avg Shr Vol:	13,673
Avg DoI Vol:	\$701,000
Sector:	Industrial Goods
Sector Group:	Aerospace, Defense, Security
Sub-Sector:	Aerospace & Defense
Revenue:	\$421,123,000
EBITDA:	\$16,179,000
Net Income:	\$9,033,000
EPS:	\$1.85
Cash:	\$9,394,000
Debt:	---
Equity:	\$41,740,000

*Financial data - trailing 12-months

[Financial Model](#)

VSE Corporation (nasdaq: VSEC) has been ranked among the top 100 defense contractors, top 10 foreign military sales contractors, and top 50 Navy contractors in the nation. Over the last few years, VSE has proven that it can not only compete, but can excel and outperform in a very lucrative aerospace/defense industry. VSE has grown revenues at 30-60% and profits at 26-80% over the last 3 years. Current funded backlog indicates that this trend is only going to continue. If the company can continue to reload its contract pipeline, as it has done for years, we expect VSE to catch-up its seriously lagging valuations. VSE's growth, profitability and impressive balance sheet has allowed the company to build value and return profits to shareholders, paying cash dividends since 1973. Also, VSE recently approved a 2-for-1 stock split payable to stockholders on record as of June 11, 2007.

- **Very Impressive Fundamentals.** VSE has one of the more impressive financial statements we've seen in a while. The company reports 3 distinct operating segments and has sustained strong double-digit revenue growth rates for years. Recent quarterly results have only improved this longstanding trend and all financial metrics continue setting new records. Earnings are growing at 30-50% and last quarter's funded backlog was up +47% to \$384 million, the highest in company history. The balance sheet is impeccable and VSE isn't stingy with profits, having paid regular cash dividends since 1973. To top it all off, VSE has approved a 2-for-1 stock split for stockholders on record as of June 11, 2007.
- **Better Growth, Lagging Valuations.** VSE operates in the huge aerospace/defense industry. We looked at their self-declared peer group, added a couple of big aerospace/defense technology names, and found VSE's valuations to be seriously lagging. VSE's growth rates are far ahead of peers, many who report declining revenues and profits, or even losses altogether. Almost every multiple shows VSE lagging peers by at least 50-60% which, in our opinion, affords the stock a chance to double or triple from here.
- **Thin Float Momentum.** Overall, VSEC is a fairly liquid stock with an extremely small public float set to double following the upcoming split. Two record quarters and the split announcement have pushed VSEC to new all-time highs, confirming a new technical breakout. There is a chance for a pullback to the \$45 support level (split-adjusted - \$22.50), but continued institutional support, stock split momentum and any good news could send VSEC into new territory and on its way to achieving the multiples it deserves.
- **Success Compounds Success.** The phenomenal growth recently experienced is actually creating more opportunities. It has allowed VSE to create a more competitive price structure with which to bid on future work and build a stronger employee base with a wider range of skill sets. VSE's success continues to broaden name recognition and builds on an impressive performance record that helps expand their customer base. VSE's significantly larger revenue and capital base improves their ability to pursue even larger programs and potential acquisitions.
- **Reloading the Pipeline.** History alone should keep us from questioning VSE's ability to just keep reloading the pipeline. Recently, VSE stated that it is, "well prepared to meet the challenge of replacing the expiring work" and we have proof. In Aug-06, VSE was awarded a contract to support the U.S Dept of the Treasury seized and forfeited property program, an 8-year deal estimated at \$113 million in revenues. In Nov-06, VSE was notified that it was 1 of 15 companies chosen for the Field and Installation Readiness Support Team (FIRST) Contract, expected to be worth several billion dollars. In Dec-06, VSE received a new task order under its Rapid Response support contract worth as much as \$164.8 million and its ELD unit got a 24-month task order worth up to \$42 million.
- **What to Watch.** VSE will not report again until late July. Ahead of the next earnings release, keep an eye out for more contract and task order announcements. Reloading the contract pipeline is the most important factor for VSE's outlook beyond 2007. In the near-term, beware of trading volatility surrounding the upcoming stock split. Beyond that, it's all about revenue growth, profitability and maintaining backlog. Don't be surprised if acquisition activity comes into play, whether VSE is the suitor or possibly a target.
- **Risks Remain.** So far, VSE has done a great job managing its many business risks, but in this thin-margin, highly competitive industry, it only takes one mistake. The stock chart shows growing market interest, but has it come a little too far, too fast? We like to find companies coming out of a long stock price base, but \$35-40 per share (split adjusted - \$17-20) would have been a much safer "entry point." How long can VSE sustain this level of performance? A big letdown in backlog would be a troubling sign that the work is "drying up." Lack of new contracts would setup declining backlog and the stock would take a serious hit.

Copyright © 1999-2006 Knobias, Inc. (otcbb: KNBS) All rights reserved.

[Home](#) | [About](#) | [Samples](#) | [Contact](#) | [Legal](#) | [Subscribe](#)

1. THE KNOBIAS SMALLCAP SLEEPERS DISCLAIMER

Knobias publishes a weekly online newsletter, Smallcap Sleepers, which provides an overview of select Knobias smallcap content being distributed to its customers. The Smallcap Sleepers content is generally focused only on those stocks below \$500 million in marketcap, and generally excludes stocks in the following sectors: Banks, Closed-End Funds, ETFs, and Utilities. Each week, Knobias independently selects at least one (1) smallcap company to be profiled.

Knobias generally determines the new "Sleeper" company at least one week prior to each new weekly edition. No officer or director of Knobias, and no employee of Knobias, whether or not such person is an officer or director, may purchase or sell securities in the Sleeper company after said company has been profiled as the new Sleeper and throughout the following week. Not until one week following the initial publication profiling the new Sleeper selection, may an officer, director, or employee of Knobias purchase or sell securities in the previous week's Sleeper company. In addition, the Sleeper company does not compensate Knobias for inclusion in the newsletter.

2. NO LIABILITY

Knobias, its officers, members, Directors, representatives and/or employees claim no responsibility for, nor guarantee, the completeness, accuracy, content, timeliness, or validity of stories and claims of the profiled companies. Knobias consolidates and disseminates information gathered from third party sources, which it believes to be accurate and liable, and presents this information on an "AS IS" basis. Knobias, through its proprietary systems and information acquired from third party vendors, has established a database of information, which contains valuable intellectual properties and Trade Secrets. Information received from the Knobias database is to be for personal use only.

Neither Knobias, nor any of its officers, members, Directors, representatives and/or employees in no event shall be liable for any direct, indirect, incidental, punitive or consequential damages of any kind whatsoever with respect to the dissemination of materials and/or products within this "Web Site" and "Reports" or "Newsletters." Neither Knobias, nor any of its officers, members, Directors, representatives and/or employees will be liable for damages arising out of or in connection with the use of this Web Site or its information. Neither Knobias nor its third party suppliers shall be liable for any errors or omissions with respect to its service, regardless of the source or cause of such errors or omissions. This comprehensive limitation of liability applies to all damages of any kind, including (without limitation) compensatory, direct, indirect or consequential damages, loss of data, income or profit, loss of or damage to property and claims of any and all third parties.

3. NOT A REGISTERED INVESTMENT ADVISOR or BROKER. NO ADVICE GIVEN

Knobias, its officers, members, Directors, representatives and/or employees are not, nor do they claim to be, registered investment advisors or broker/dealers. Knobias, its officers, members, Directors, representatives and/or employees do not endorse or recommend any securities listed herein or any services of any brokerage company. Data and information contained herein is provided for informational purposes only. No data or information herein should be construed to be a recommendation to purchase, retain, or sell securities, or to provide investment advice of the companies mentioned or advertised. Investments in the profiled companies should be considered to be of high risk and use of the information provided is at the investor's sole risk. All statements, whether written, quoted or recorded are the opinion of the profiled companies and are not a solicitation or recommendation to buy, sell, or hold securities. This Web Site may not offer full and complete investment information on the covered securities and Knobias advises investors to seek/verify additional information from the SEC, if a filing company, or for non-reporting companies, to request information from the company itself.

The Knobias Smallcap Sleepers Newsletter contains the authors' own opinions, and none of the information contained therein constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable for any specific person. You further understand that the Knobias Smallcap Sleepers Newsletter will not advise you concerning the nature, potential, value or suitability of any particular security, portfolio of securities, transaction, investment strategy or other matter.

Past results are not necessarily indicative of future performance. Investing in the stocks chosen for the Knobias Smallcap Sleepers Newsletter model portfolio is risky and speculative. The companies may have limited operating histories and little available public information, and the stocks they issue may be volatile and illiquid. Trading in such securities can result in immediate and substantial losses of the capital invested. Investing in micro cap or non-listed securities is considered HIGHLY speculative and any individual that chooses to invest in these securities should perform his/her own due diligence before making any investment decision. Investors should use information contained within this "Web Site," "Reports," and/or "Newsletters" as basic due diligence and should research further before forming an opinion regarding the merits of investing in certain securities. Statements and information contained within this "Web Site," "Reports," and/or "Newsletters" are presented as of the stated date and are subject to change without notice. Knobias urges its readers to check any securities filings with the Securities and Exchange Commission (SEC) on the SEC's Edgar web site located at www.sec.gov, if available, before making an investment decision.

4. COPYRIGHT & TERMS OF USE

All information and items contained within the Knobias "Web Site(s)" and/or printable "Reports" are Copyright © 2006, Knobias, Inc. (otcbb: KNBS). All Rights Reserved.

This Web Site and all of its content, design, text, graphics, video, audio and selection and arrangement thereof is the property of Knobias.com, LLC, a subsidiary of Knobias, Inc., and/or its affiliates, licensors or assigns (collectively "Knobias") and are protected, without limitation, pursuant to U.S. and Foreign copyright and trademark laws. Reproduction, modification, distribution or republication without the prior written consent of Knobias is strictly prohibited. Copyright and trademark laws are strictly enforced. By accessing this Web Site, you agree to all of the stated terms and conditions of this agreement. If you do not agree, you have no right or permission to access this Web Site and should not do so. As used within this agreement, the term "Web Site" refers to Knobias.com and all of its content, reports, newsletters and other services.

You are authorized to download one copy of the material on this Web Site on one computer for your personal, non-commercial use only, and to print one hard copy of the material on this Web Site for your personal, non-commercial use only. In doing so, you may not remove or in any way alter any trademark, copyright, or other proprietary notice. You may not modify, copy, distribute, publish, sell, broadcast, circulate, commercially exploit, or upload any of the material on this Web Site without the prior written consent of Knobias, except as expressly allowed in the first sentence of this paragraph. You also agree not to use this information for any unlawful purpose. The information presented here may not under any circumstances be resold or redistributed for compensation of any kind without prior written permission.

No intellectual property or other rights in or to this Web Site, other than the limited right to use set forth above are transferred to you.

The Knobias Smallcap Sleepers Newsletter ("Newsletter") contains copyrighted subject matter and confidential information owned solely by Knobias, its affiliates and content providers. You may not, without Knobias' prior written consent, otherwise reproduce, re-transmit or distribute the Newsletter as a whole, entire articles, tables, data compilations, or other substantial creative content. Photocopy permission is available solely through Knobias. Knobias, its affiliates and content providers reserve all rights not expressly granted. Reproduction, distribution or use of this Newsletter in violation of this license constitutes copyright infringement and trade secret misappropriation in violation of federal and state law. Reward paid for information resulting in the successful prosecution of violators. If you do not agree to abide by the terms of this limited license, either immediately destroy the accompanying Newsletter (and any copies), or return it to Knobias. Notify Knobias if you do not wish to receive this Newsletter. The Knobias Smallcap Sleepers Newsletter is an e-newsletter that is a business and financial publication of general and regular circulation.

5. INDEMNIFICATION BY USER

Penny stocks and/or non-listed securities are risky by nature. Please research Investor education web sites for further details on the risks associated with trading non-listed securities. This Web Site is intended for informational purposes only and is not considered to be a buy/sell recommendation for any security within this Web Site. You hereby agree to indemnify and hold harmless Knobias and its representatives from and against any and all claims, charges, demands, liabilities, losses and expenses of whatever nature and howsoever arising (included but not limited to any legal or other professional fees and the costs of defending or prosecuting any claim and any loss of profit, goodwill, and any other direct, indirect or consequential loss) incurred or suffered by Knobias and its representatives, directly or indirectly, by reason of any act or omission which you commit in breach of these terms and conditions (including but not limited to your obligations contained herein) and any other terms and conditions or policies set forth elsewhere in this Web Site. Viewing of this "Web Site" and/or "Reports" and/or "Newsletters" shall not create an offer to buy or sell stock in any security in which information is disseminated nor shall it create any relationship, agency or otherwise between the viewer/subscriber and Knobias.

6. CEO INTERVIEWS

Knobias offers CEO Interviews to the profiled companies, along with a printed transcript in PDF format. The profiled companies do not compensate Knobias for CEO Interviews and transcripts. Knobias believes the information within the CEO Interview to be true and accurate; however, Knobias makes no representations or warranties as to the accuracy or completeness of such information. Knobias will not be liable or responsible for personnel within these interviews complying with federal or state securities laws or regulations, including but not limited to, SEC Regulations concerning Fair Disclosure.

7. PRIVACY POLICY

Knobias is committed to safeguarding your privacy online. Knobias will ask for additional personal information for paying subscribers, as well as persons that purchase pay-per-view products from the web site. Knobias, from time to time, will send alerts and emails as part of our service to keep subscribers informed of certain information in which they have shown an interest. Any personal information you supply through our web site will not be disclosed to any third party, with the exception of our sponsors, except for information used in aggregate form for the purpose of compiling demographics. No individual information will be disclosed to others when you fill out a survey, register with, request information or contact us.

If you choose to accept "cookies", Knobias will download a "cookie" to your personal computer. This "cookie" stores your Knobias Member Username and Password allowing Knobias to automatically identify you when you logon to Knobias from your personal computer. This makes you access faster and allows Knobias to provide you with customized information you have registered to view or use. Nothing in a "cookie" can identify you individually.

Knobias is an e-commerce site that allows purchases through the use of credit cards. Knobias requires certain personal information associated with a credit card purchase. This information will be forwarded to the e-commerce vendor for their use only in processing this transaction. You will have the option of processing through an encrypted secure server.

Knobias reserves the right to access and disclose individually identifiable information to comply with applicable laws, regulations and lawful requests from legal or regulatory authorities.

Knobias allows posting to its Message Boards by paying subscribers. Each posting in the Message Board section includes an IP Verification number that identifies the numerical internet address of the person who has done the posting. This practice helps Message Board users cull postings and differentiate between posters who are posting under different names and aliases. Knobias Message Boards are for entertainment use only and all users should be aware that false and misleading statements might be posted within the

Message Boards. "Spam" postings will not be allowed within the Knobias Message Boards. Knobias will discontinue the use of Message Boards by anyone caught "spamming" within their postings. Knobias is not responsible for any content within the postings on the Message Boards.

Knobias makes no representations or warranties as to the privacy policies of any of its vendors, advertisers, sponsors, partners or suppliers found on the Knobias.com web site.

We invite you to contact us at info@knobias.com if you have any questions or comments concerning our privacy policy.

8. ELECTRONIC COMMUNICATIONS

Knobias is committed to safeguarding your privacy online. When you subscribe to Knobias' services as a paying subscriber, or if you purchase pay-per-view products from the web site, Knobias will ask for personal information, including but not limited to an e-mail address. Knobias has promised to send you certain information, such as alerts and newsletters, in connection with the service which you acknowledge is a key component of the service. There may be other information regarding the service that the law requires Knobias to send you. Knobias has the right to send you certain additional information. Knobias may send you this information in electronic form. You have the right to withdraw this consent, but if you do, Knobias may cancel your service. Your continued use of the service and of the Web Site is an acknowledgement that any e-mails sent to you from Knobias is not considered SPAM. Knobias will provide such information to you by e-mail only at the e-mail address you specified when you signed up for your service. Knobias will not disclose your specified e-mail address to any third party, nor will Knobias permit any third party to send you an e-mail.

The e-mails sent to you from Knobias may contain third party advertisements that have been previewed and approved by Knobias to be included in e-mails. Your correspondence or business dealings with, or participation in promotions of, advertisers found on or through the e-mails, including payment and delivery of related goods or services, and any other terms, conditions, warranties or representations associated with such dealings, are solely between you and such advertiser. You agree that Knobias shall not be responsible or liable for any loss or damage of any sort incurred as the result of any such dealings or as the result of the presence of such advertisers in the e-mails.

Notices provided to you via e-mail will be deemed given and received on the transmission date of the e-mail. As long as you can access and use the service, you have the necessary software and hardware to receive these notices. If you do not consent to receive any notices electronically, you must stop using the service. You acknowledge that e-mail delivery is inherently unreliable and that Knobias is not responsible for delays in transmission over the Internet, your accidental deletion of e-mails, technical issues that prevent delivery of e-mails, e-mails that are not delivered because of blocking or being caught in a SPAM filter, and for any other causes that may result in your not receiving or the timeliness of any notices, alerts, newsletters, or other communications from Knobias.

9. AUTOMATIC RENEWALS & REFUNDS

All subscriptions shall automatically renew for periods of one (1) month unless the customer notifies Knobias in writing prior to fifteen (15) days before the expiration of the then current term of its intent to terminate at the conclusion of such term.

Refunds are available only after 30 days of subscription service. A minimum one (1) month subscription fee will be applied to all accounts. All refunds will be processed on a pro rata monthly basis. In order to obtain a refund, you must provide your correct e-mail address and/or mailing address to Knobias. Knobias will not be liable for any claims of non-receipt of a refund that was a result of an incorrect email address and/or mailing address provided by you to Knobias. The customer is responsible for providing a correct/working e-mail address.

10. MODEL SMALLCAP SLEEPER PORTFOLIO

The Model Smallcap Sleeper Portfolio is a list of stocks featured in Knobias' weekly publication, Smallcap Sleepers, and is not representative of any actual monetary gains or losses that might have occurred in the marketplace. Actual results would most likely differ greatly from results posted in the model portfolio for many reasons, including, but not limited to: (i) trading commissions; (ii) certain market factors, such as lack of liquidity; (iii) the stocks may be volatile; (iv) although the "purchase" or "sale" of a security in the model portfolio will not be effected in the model portfolio until confirmation that the email alert has been sent to all subscribers, delivery delays and other factors may cause the price to differ substantially from the price at the time the alert was sent; and (v) the prices of stocks in the model portfolio at the point in time you begin subscribing to Smallcap Sleepers may be higher than such prices at the time such stocks were chosen for inclusion in the model portfolio.

Past results are not necessarily indicative of future performance. Knobias is not a broker/dealer or registered investment advisor and does not advise individuals as to the advisability of investing in, purchasing or selling securities. Nothing contained in the Model Sleeper Portfolio constitutes an offer or solicitation to buy or sell any such security. Knobias does not endorse or recommend any particular security. Nothing contained in the Model Sleeper Portfolio is intended to constitute professional advice, including but not limited to, investment or tax advice.