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# BWX Technologies, Inc. (BWXT)

Q2 2024 Earnings Call

## CORPORATE PARTICIPANTS

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**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

**Robb A. LeMasters**

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## OTHER PARTICIPANTS

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**Robert James Labick**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the BWX Technologies Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the company's prepared remarks, we will conduct a question-and-answer session and instructions will be given at that time.

I would now like to turn the call over to our host, Chase Jacobson, BWXT's Vice President of Investor Relations. Please go ahead, sir.

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**Chase Jacobson**

*Vice President-Investor Relations, BWX Technologies, Inc.*

Thank you, Kathleen. Good evening, and welcome to today's call. Joining me are Rex Geveden, President and CEO; and Robb LeMasters, Senior Vice President and CFO. On today's call, we will reference the second quarter 2024 earnings presentation that is available on the Investors section of the BWXT website.

We will also discuss certain matters that constitute forward-looking statements. These statements involve risks and uncertainties, including those described in the Safe Harbor provision found in the investor materials in the company's SEC filings. We will frequently discuss non-GAAP financial measures which are reconciled to GAAP measures in the appendix of the earnings presentation that can be found on the Investors section of the BWXT website.

I would now like to turn the call over to Rex.

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## Rex D. Geveden

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

Thank you, Chase, and good evening to all of you. This afternoon, we reported strong second quarter results that were ahead of our expectations. We had robust 11% organic revenue growth, 18% adjusted EBITDA growth and adjusted earnings per share growth of 26%. We benefited from good execution across our business lines and favorable timing for a number of items in the first half which drove the outperformance. Year-to-date performance gives us the confidence to increase the lower end of our adjusted earnings per share guidance, resulting in a range of \$3.10 to \$3.20 and to reaffirm our full year operational guidance for mid-single digit revenue and adjusted EBITDA growth.

Over the last several months, we continue to experience positive demand momentum in our global security, clean energy and medical markets. We are seeing federal and state governments prioritize regulatory clarity and funding to boost investments in nuclear power as a reliable clean energy alternative complemented by demand from private industry. This ranges from utilities and major power consumers looking to add nuclear capacity to the grid, to pharmaceutical companies investing in radiotherapeutics as the first line of attack for complex cancers.

BWXT's nuclear technical depth, unique licenses and differentiated infrastructure across various industry segments position us well to help our customers realize their goals across project lifecycles. At our core, we are a supplier and partner to our customers, capable of everything from concept development and engineering in early design stages through manufacturing of critical components and ultimately providing services to maximize the utilization and lifespan of their asset. This provides us substantial visibility into the long-term potential of the markets we serve and opens the [indiscernible] (00:03:20) lifecycle opportunities for BWXT.

Now turning to a discussion of segment results and market outlook. Government Operations had a solid quarter with 10% revenue growth and 13% adjusted EBITDA growth, both ahead of our expectations and driven by the continued ramp on newer special materials and micro reactor projects as well as solid volumes in our naval propulsion business. From an operational standpoint, our naval nuclear propulsion business performed well in the quarter. As we discussed in detail last quarter, the lower tempo of work associated with the [ph] ordering wall (00:03:57) for the Ford-Class aircraft carrier will be with us through at least 2025 and potentially 2026, but we are seeking and finding ways to keep our plants operating at level load.

We remain intensely focused on operational equipment effectiveness initiatives and driving process improvements throughout the organization to mitigate these headwinds and we expect to finalize our next pricing agreement in the coming months. At the same time, we continue to invest in our businesses to ensure sufficient capacity for execution of program schedules and to improve our competitive positioning. For example, in the second quarter, we engaged in a significant and successful facility and process line modernization in our nuclear fuel services plant to support growing demand. Such investments can create modest near-term margin headwinds, but we make these investments to improve product quality and production capacity.

Also, within Government Operations, we are very excited about the contract award and quick transition under the Pantex plant in Amarillo, Texas. As of July 13, BWXT is leading a joint venture that will supervise this important site under a 20-year contract, further solidifying our leadership in the NNSA space. In the microreactors business line, our defense related projects [ph] Pele on land and DRACO on space (00:05:19) are progressing well. And in the commercial sector, we continue to work with the Wyoming Energy Authority to assess the viability of deploying microreactors in that state, leveraging our banner work largely funded out of the Department of Energy's Advanced Reactor Development program.

In a related matter, in early June, the Army and Defense Innovation Unit posted an RFP for procurement of microreactor, capable of generating 3 megawatts to 10 megawatts of power for US Army bases. We believe the strong team of partners we have selected our experience [ph] with (00:05:57) Pele and our existential component and fuel manufacturing facilities put us in a leading position for this remarkable opportunity.

Overall, the long-term demand trends in our Government Operations segment are favorable. We remain confident in the segment's medium-term outlook for mid-single digit revenue and adjusted EBITDA growth as modest growth in our naval nuclear propulsion business is enhanced by real growth in microreactors, special materials and technical services.

Turning to Commercial Operations, revenue in the segment grew 17% organically and adjusted EBITDA grew 42%. Demand for commercial nuclear power is blossoming with interest from industry, utilities and government buyers. During the quarter, we received full notice to proceed with the manufacture of the reactor pressure vessel for GE Hitachi's BWRX-300 small modular reactor project at Ontario Power Generation's Darlington site. As the first SMR project in the Western Hemisphere, this is a strategically meaningful project for BWXT and is also an important reference point for power plant developers assessing the build out of SMRs.

Additionally, in June, the Department of Energy announced that it will provide up to \$900 million of funding to spur SMR development. This was followed by Dominion Energy issuing an RFP to find a technology partner to build an SMR at the North Anna Power Station in Virginia. Dominion joins a growing list of domestic and international utilities expressing interest in building small modular reactors. We face the SMR market with deep nuclear design capabilities and as a merchant manufacturer with the largest nuclear equipment assembly facility in North America.

In the CANDU market, we had a solid quarter driven by ongoing life extension projects and strong field services growth weighted toward outage projects that generally bring slightly higher margins. We are starting early work on the life extension of Ontario Power Generation's Pickering Units 5 through 8, which will be a key part of this segment's bookings and earnings over the next 10-year life cycle of that project.

Turning to BWXT Medical, revenue in the first half of 2024 is tracking in line with our full year expectation of approximately 25% growth. I continue to be pleased with the progress we are making in growing and executing on our existing diagnostics portfolio and expanding our product lines in key cancer therapeutics. Specifically, over the last couple of months, BWXT has extended its leading commercial position in high quality actinium-225, a therapeutic isotope that is being used in over 25 clinical trials for the treatment of multiple forms of cancer.

In June, we submitted a Drug Master File with the FDA for our actinium-225 active pharmaceutical ingredient. We are now the only commercial company with an active Drug Master File for this vitally important medical isotope. This enables pharmaceutical companies to reference our product as they advance drugs through clinical trials and prepare to file new drug applications. Additionally, in July, we announced a partnership with NorthStar whereby BWXT will provide processing and purification services to develop radium-226 targets that will be utilized in NorthStar's electron accelerator to produce actinium-225.

This partnership highlights our picks and shovels strategy through which we serve the ecosystem with a full suite of services, including sourcing starter material, target design, irradiation, processing the irradiated material and waste stream management. In this instance with NorthStar, we are initially focused on constructing the difficult to manufacture radium-226 targets, but over time it could evolve into a second source of irradiation and production in addition to our current actinium operations in Vancouver.

In diagnostics, we continue to advance our tech-99 development and commercialization strategy. We have successfully produced test generators and continue to work with the FDA at the pace we previously outlined and see clear customer support for our product. As the pending FDA approval date becomes more visible, we have been actively marketing and testing samples of our product with customers to enable supply agreements and commitments to significant spot volumes when they become available. We have planned a methodical entrance into the market to ensure a smooth product launch with gradual volume increases throughout 2025 and a full annual run rate of contracted volumes in 2026 and beyond.

Finally, as BWXT Medical shifts the balance from development to a more operational and commercial phase, we are adding executive talent to the business. I'm pleased to announce that Vittorio Puppo will join BWXT this month. He brings deep operational and commercial expertise, having spent most of his 30 plus year career in the nuclear medicine industry at Amersham, Bracco and Medtronic, among others. I appointed Dr. Jonathan Cirtain to run this business in 2022, with the charge to lead development and regulatory approval of the technetium-99m generator product and to establish the foundations of the therapeutic growth strategy. He has made remarkable strides in developing the product portfolio, nearly doubling sales and driving it to positive EBITDA. He will now return to my direct staff and resume his role as Chief Development Officer, maintaining a focus on BWXT Medical alongside Vittorio and growing the larger BWXT product portfolio, including microreactors, advanced fuels, special materials and other exciting new product lines.

Overall, we had a strong quarter and we continue to position BWXT to capture an overweight share of business in these exciting and growing nuclear market segments. Our year-to-date performance leads us to narrow our 2024 adjusted earnings per share guidance range. There are firm demand signals from our government and private customers alike and their desire to use nuclear solutions to address their challenges is steadily increasing. BWXT has world-class manufacturing processing and services capabilities backed by our highly credentialed and experienced workforce and unique infrastructure that enables us to benefit from the many compelling nuclear opportunities we see ahead.

With that, I will now turn the call over to Robb.

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## Robb A. LeMasters

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

Thanks, Rex, and good evening, everyone. I'll start with some total company financial highlights on slide 4 of the earnings presentation. Second quarter revenue was \$681 million, up 11% organically, with solid growth in both segments. Adjusted EBITDA was \$126 million, up 18% year-over-year, with double-digit growth in both segments, albeit off an easier comparison in the second quarter of last year. Unallocated corporate EBITDA was essentially flat compared to the second quarter of 2023, in line with our expectation for the full year. Adjusted earnings per share of \$0.82 increased 26% compared to the \$0.65 in the prior year quarter.

As you can see in the EPS bridge on slide 5, the majority of growth was driven by operations with modest contributions from lower interest and a lower tax rate. Our adjusted effective tax rate in the quarter was 22.7%. This is lower than our previous guidance for the year of 23.5%, driven mainly by a catch up for the recently enacted Canadian Tax Legislation that reduces the statutory tax rate for nuclear manufacturers through 2034. As such, we now expect our full year tax rate to be less than 23.5%.

Free cash flow in the quarter was \$36 million, down modestly from \$41 million in the second quarter of 2023. Slightly lower cash flow was due to higher working capital requirements as we ramp on several new projects in each of our segments. Year-to-date, free cash flow was \$38 million, up significantly from a use of \$2 million in the

first half of 2023. CapEx in the quarter was \$30 million and \$61 million year-to-date. We continue to expect CapEx to be similar to last year's level of \$151 million with the ramp in the second half of 2024, largely driven by our commercial nuclear facility expansion in Cambridge, Ontario, as well as other select growth investments.

Moving now to the segment results on slide 6. In Government Operations, second quarter revenue was up 10% to \$541 million, driven by increases in naval nuclear components, long lead materials, U-Metal and microreactors. Adjusted EBITDA in the segment grew by 13% to \$108 million, as higher revenue was complemented by solid operational performance. EBITDA margin in the segment was 20.0% compared to 19.4% in the same quarter last year. While higher compared to Q2 2023, GO EBITDA margin performance continues to be limited due to both investments in new capabilities such as the fuels, modernization optimization project Rex discussed earlier and faster growth in our development stage work streams that carry lower margins until they become more mature programs. At this point in time, we view first half 2024 GO segment EBITDA margin performance as a good proxy for the year as these items continue. This should ultimately lead to modest year-over-year adjusted EBITDA growth in the segment in line with our previous guidance.

Turning to Commercial Operations, revenue was up 17%, driven by strong growth in commercial nuclear power and continued growth in BWXT Medical. Adjusted EBITDA in the segment grew nearly \$7 million to \$22.5 million driven by higher revenue, good execution, favorable contract items and mix in our commercial nuclear power business. As a reminder, our commercial nuclear power business is seasonally stronger in the second and fourth quarters due to outage schedules and associated field services work, which had an outsized benefit on second quarter results. This led to Commercial EBITDA margin of 15.9%, up from 13.1% last year. We continue to expect Commercial Operations revenue growth of high-single digits to low-double digits in 2024 with higher EBITDA margins compared to 2023.

Turning now to guidance on slide 7. We are reaffirming our operational guidance metrics and narrowing our adjusted EPS guidance range for the year. We project total company revenue and adjusted EBITDA growth in the mid-single digits, leading to a revenue of at least \$2.6 billion and adjusted EBITDA of approximately \$500 million. We now expect adjusted earnings per share of \$3.10 to \$3.20.

As you can see on the EPS bridge on slide 8, we see a slightly lower interest expense and tax rate with no material change to our view on operations for the year. As we experienced the shift between first half and second half timing compared to how we originally saw our quarterly earnings cadence playing out. We now expect a more even cadence of EPS between the first half and second half of the year with the next two quarters being similar. Lastly, we are reiterating our expectation of strong free cash flow growth. We expect free cash flow of \$225 million to \$250 million driven by EBITDA growth, improved working capital management and a disciplined approach to capital expenditures.

To sum it up, we had a strong quarter that was ahead of our expectations, derisking our full year EPS guidance. Our focus remains on capturing growth opportunities across our business lines, pursuing new opportunities and mitigating macro headwinds such as higher labor costs through operational excellence and improved planning.

And with that, we look forward to taking your questions.

## QUESTION AND ANSWER SECTION

**Operator:** All right. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Scott Deuschle from Deutsche Bank. Please go ahead.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Hey, good evening, guys.

Q

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

Hey, Scott.

A

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

Hey, Scott.

A

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Rex, is actinium already a meaningful contributor to growth at BWXT Medical just given the pricing there or is it still very small right now?

Q

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

It's a pretty small fraction of revenue, but it's ramping pretty fast and has a chance to be meaningful in the fairly near-term, I would say.

A

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. So do you need to have the commercialization of drugs and actinium for that to be meaningful? Or can it become meaningful just with these large numbers of Phase 3 trials that are out there?

Q

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

I think you can think of it as maybe having a similar profile to lutetium in the sense that there's business in the clinical trial phase and there, as we said in the script, over 25 clinical trials at the time. So there's something there. Yeah, but the real growth occurs when you get drugs approved and get into production. And we've announced prior agreements with Bayer and Fusion for such supply. So we're doing clinical trial stuff with an expectation of participating meaningfully in the production of the drugs.

A

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. And then speaking of lutetium, Rex, are you getting ready to file the DMF for that here soon as well?

Q



**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Yeah. I can fill in for that, because I think I gave an update last year. We still have that as a project that we're rolling out and expecting that next year or so. It's a couple of months off. We're readying construction and figuring out the processing and so forth and again we'll have two different radiation sources, we think to do that. So we'll be filing that next year, Scott.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And then Rex, maybe I'm misinterpreting, but the confidence you seem to have there in your prepared remarks on the outlook for tech-99 seems pretty high. So I guess are you seeing some movement in terms of getting FDA approval that's driving that confidence or am I maybe just over interpreting here?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

No, I think our confidence is good here, Scott. We've got – we've kind of been optimizing the formulary, so to speak, and the product quality is really exceptional. So we know we have a viable commercial product. We've been working off of our sort of list of actions with the FDA, and there's a normal tempo of communication with them. And I think we're probably most excited around the commercial progress where we have very, very engaged potential customers working through our future with them. So I'm certainly bullish on this.

**Operator:** Your next question comes from the line of Rob Labick (sic) [Bob Labick] (00:21:57) of CJS Securities. Please go ahead.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Good afternoon. It's Bob Labick, and thanks for taking our questions as well. Just to stick with the isotopes question there for a second just and on the moly-99 in particular, it does sound obviously that your confidence continues to increase and the timing and you gave us an outline it sounded like a ramp during 2025. So what is the next news we'll hear, is there a timeframe for approval that you have or can share or how should we think about the next steps that we'll hear in terms of moly to start with?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. I just – I'd just say just stay tuned, Bob. We are on the same course and expect things to develop in the way that I outlined here in the remarks. We are, I think, going to be a little careful about how we approach 2025 because the production and logistics are complicated for tech as well understood in the market but will ramp up in a cautious way and have a viable product to the market.

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Yeah. Maybe I'll add to just say what we were trying to kind of lay out there is 2024 as I've said last quarter really it's – we plan to be commercial and be ready to service customers. This year, in fact, as Rex talked about, agreements are being discussed and so by some indications, we already kind of our commercial ready to go as long as the FDA comes through shortly. And then as 2025 evolves, we're also trying to indicate, look we're not going blockbuster kind of immediately. We're going to try to get in the industry slowly and we're going to moderate



our expenditures. I think I've talked about in the past that we have ways of doing sort of one run and building to a second and third run over time.

And so that will kind of build up as we see customers really satisfied with the product and putting the logistics out and so forth. And then ultimately, it will become a mover in 2026, as our guidance always suggested, so that was sort of the walk before we run speech financially, not a big setback for 2024 frankly, all scenarios for 2025 allow us to get in very in a judicious manner and have it not really move the needle substantially to the upside or downside for 2025 as it relates to profit and in 2026 is really where you're going to see some powerful economics.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay. Super. And then shifting over to TSG, congratulations on the Pantex win, it sounds like that one was not protested. So can you give us a time horizon for a ramp up and when that starts to hit the P&L and then an update on the Hanford tanks, I don't know the timeline or what we might hear from that.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. I'll take that one, Bob. I think we've described before on these calls for the technical services contracts. You go through a transition period where you overlap with the incumbent for a period of three or four months. So we are in that phase now. You're correct, it withstood the protest period and we went on to site to begin the transition in the middle of July. So the transition period, I don't know, I can't recall if it's three months or four months, but I think it's a four-month transition that's not a fee bearing period. You do get some minor cost absorption benefits in that phase, but it's not fee bearing. So think of that as starting to have a modest effect in, let's call it the fourth quarter and then being in full run rate for 2025 on Pantex.

For Hanford, the Hanford just to review the bidding here a little bit, we won the contract a couple of years ago. It was protested, [ph] Judge Horn in Federal Claims Court (00:25:36) sent it back to DOE for corrective action because there were problems with both bids. We repropoed and submitted new proposals and we're selected again. That selection was protested and is now in the hands of the court and so that's up to the Federal Court of Appeals and we'll see what happens. But I would expect it to get sorted out probably in the next quarter or so.

**Operator:** Your next question comes from the line of Pete Skibitski of Alembic Global. Please go ahead.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Hey, good evening, guys.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Hey, Pete.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Hey. Hey, Rex. On the DIU RFP, I just was wondered if you could maybe share with us some of the structure there. Is this sort of an LRIP request for one unit or for multiple units? And then I was just wondering if you guys have been able to identify, if the Army is actually budgeted for some of these units across their fill up?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yes, Pete. So the RFP, it looks like what they're going to do is select maybe two different contractors. We'll go through some kind of a study phase and then ultimately through a deployment phase and their intention was to have these two types of microreactors online in place by the end of the decade. I think the total procurement is for up to five reactors of each type. So you can think of that as having – I think that's a very meaningful opportunity for us. As for the Army to bid up, I don't know whether that funding is in there yet.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay. Okay. But yeah, that sounds like, I don't know, \$0.5 billion or more type of opportunity for you, it sounds like.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. I don't want to put a number on that certainly at this juncture. But it's – yeah, it's meaningful. We had always hoped to get that kind of an LRIP based on these microreactors. This will resemble that for sure. And then hopefully get into a cadence of full production as we move down the road on this. But it's always been our ambition that is to replicate our franchise business in other domains with other technologies and this is that step, the next step.

**Operator:** Okay. Our next question comes from the line of Peter Arment of Baird. Please go ahead.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Yeah. Thanks. Good afternoon, Rex, Robb, and Chase.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Hey, Peter.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Nice results. Hey, Rex, you mentioned the GE Hitachi SMR kind of working, how do we think about kind of the revenue timeline impacting just related to that?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. So we laid out kind of a pattern, I think in the past few calls, which is you do this first unit and hopefully Ontario Power Generation commits to Units 2 through 4 at some point in the future. And we imagined these units being separated in time by 18 months, two year, something like that. And so – and then we attached a rough revenue number of about \$100 million to each of those small modular reactors for BWXT and that's – that would include reactor pressure vessel and potentially some other components. And so think of those, as you know, those activities, design, manufacturing is occurring over a handful of years that \$100 million spread over, let's call

it two years, three years – two years, three years, four years and then the other ones layering in on top of it that way. I don't know, Robb, you want to add anything?

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

No, that's right. We've been talking about these different opportunities. Obviously, we've also been selected by other providers. They generally range from, call it, \$50 million to \$100 million of content each time you get selected, depending on what our mission is for that. And then generally, we've been saying over about a three – maybe four-year timeframe is where you kind of spread that call it \$100 million over that. And hopefully, it just keeps layering in blocks of those as they increasingly take orders and push it down to us as the merchant manufacturer.

**Peter J. Arment**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Got it. And then just a quick one on the Pickering refurbishment work, it sounds like the early work is commencing. So just can you talk a little bit about either capacity or meaningful head count that you need in order to kind of support all the work you're doing with Darlington, Bruce and now Pickering.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yes. Yes, Peter. So that's obviously the reason why we're expanding the Cambridge facility consistent with the announcement that we made a few months ago last quarter. Yeah, we have – we're ramping that workforce pretty aggressively right now because we continue to have meaningful work on the Bruce refurbishments. We have including, by the way, steam generator manufacturing, heater manufacturing, we'll have similar work scopes over at Pickering and they're overlapping somewhat.

And to make matters more challenging for us from a capacity perspective, they also overlap with the small modular reactor at Darlington. So that's the reason for the build out. We are recruiting aggressively and having good success with that. I'd say our talent acquisition process is really tuned up right now and so our expectation is to meet the labor need. It's also our expectation that with the capacity expansion that we did, we can accommodate all of these competing priorities and customer needs.

**Operator:** Your next question comes from the line of David Strauss of Barclays. Please go ahead.

**Joshua Korn**

*Analyst, Barclays Capital, Inc.*

Q

Hi. Good afternoon. This is Josh Korn on for David. Thanks for taking the question. Just wanted to – I was hoping you could speak a little bit about the latest on Carrier, Virginia and Columbia build schedules and any impacts on the government opt out work over the next couple of years. Thanks.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. I'd say there's kind of nothing new there. We – consistent with what we – consistent with what we've been saying, the shipbuilding schedule would have the forward ordering lull extended into 2026. It had been historically 2024 and 2025. So we're forecasting our business based on the shipbuilding schedule. That said and we always say this, the authorizers and the appropriators aren't done yet. So we'll see what happens, there are some noise

about long lead materials and advanced procurement. So we'll see where all that goes, but right now, we're forecasting according to the shipbuilding schedule and we expect to find ways to grow apart from that in order to meet our medium-term guidance numbers. And we're very confident that we can do so.

**Joshua Korn**

*Analyst, Barclays Capital, Inc.*



Thank you. I'll stick to one.

**Operator:** Your next question comes from the line of Andre Madrid of BTIG. Please go ahead.

**Andre Madrid**

*Analyst, BTIG*



Hi. Thanks for taking my question. Kind of following up on the last one, just more specifically, there's been a lot of chatter around Virginia-Class maybe getting cut by one [indiscernible] (00:32:59) it seems like there might get some emergency funding put back in. But I mean, do you think that the prospect of this happening is actually real in the next coming years? And if so, would it be a one-off or could we actually see a step change from the Navy happening?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*



Yeah. It's speculative at this point, and I think it's something we could manage if it does transpire. But we continue to build two Virginias a year and it's our hope that that continues.

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*



Yeah. And the specific thing you're talking about maybe was the one-off in the actual budgets that were filed earlier this year, I think we talked about in the last call that going from a two kit – two per year cadence to one. Actually, if you look at the funding profile, we've actually received, even in that scenario, we get advanced procurement dollars that would keep us steady. So while that might affect the shipyards to some extent, I wouldn't be surprised [ph] they build it in (00:33:51).

And just to be clear, if you're talking about just this year kind of that ordering, that one looks quite good for us. So I just want to be clear. And then thereafter, I haven't heard much chatter. In fact, 2 per year thereafter, I think a lot of people are trying to push up to making sure that the industry is able to do almost 2.3 because as you know the AUKUS program will be quickly on the back to the extent that you can ramp even more, I think frankly, the US, UK and Australia would take more.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*



I might add, Andre, just as a footnote to what Robb said there very accurately, the Congress is particularly interested in ensuring that the supplier base is stable for submarine and carrier production. And so you do see, the legislators tending to support long lead materials, tending to support the supply chain despite throughput challenges at shipyards. That's been a history.

**Andre Madrid**

*Analyst, BTIG*



That's helpful. And a follow up on that, I know you mentioned AUKUS, I know coming up very rapidly is the down selection of the different suppliers. I mean, any kind of update on the timeline there? I mean that's kind of all been the signaling from the Australians, but I'm not sure if you guys are getting anything else, maybe just an update on how you're feeling about that potential competition.

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**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. We're not getting much, honestly. We just don't have a ton of visibility into that at this point.

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**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Yeah. And as you know, there's two parts to that. There's the – [ph] out there the Australians wanting a (00:35:21) – the first three to five. In terms of Virginia, there's no down select, if you will, away from us, right, it's just the quantity that they want. So to the extent that they want three, we'll produce those three, they want five, we'll produce those five, right. So those are Virginia-Class that's frankly the work over the next decade. So that comes to us. There is no down select away from BWXT.

On the future platform, whether it's SSN-AUKUS, we hope to participate there. So there is, as you call it, a down select. There is some desire and we've been upfront that we've been communicating with our customer. They say you certainly get some scope on that one. That's a little bit TBD as to what that scope is and how big it is for BWXT. But even there we've leaned in to say, yeah, we see scope there.

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**Operator:** Your next question comes from the line of Michael Ciarmoli of Truist Securities. Please go ahead.

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**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Hey, good evening, guys. Thanks for taking the questions. Nice results. Hey, Robb, I think Robb or Rex, you kind of commented in light of the CVN kind of low maybe level loading the plans, you've obviously got the microreactors ramping. But how do we think about the margin implications? You've guided Government down slightly this year, even in this quarter, you had really good sequential growth, but the margins were down sequentially. So if CVN does in fact play out, should we sort of calibrate our expectations to be a little bit more cautious on the Government Ops EBITDA margins, just given the type of work that's going to be flowing through the facilities?

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**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. Let me start, Michael, with the response and then I'll flip it over to Robb here to add some color. That margin pressure that we see really isn't so much related to operations in the Naval Nuclear Propulsion Program. What you're really seeing there is a mix that relates to the very rapid growth in our primarily our Advanced Technologies Group. So we've got microreactor programs, we've talked about that. Those are cost plus fixed fee programs in the early stages where the governments bearing the risk and therefore the fee in there – and the margin is – drags on the business a little bit.

Until we get into production programs, there's also some other factors, heavier R&D load in that business and there's also the Advanced Reactor Development program, which is an 80/20 cost share with the government. The government is paying \$0.80 on the dollar a great deal for us. It enables us to advance our commercial ambitions around microreactors, but there's a cost with it as that program grows. And so I see that as more of a mix thing

than a margin pressure thing in operations. And I think that's the most of the story there. And let me flip it over to Robb for any additional color.

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Yeah. No, you said that well, Rex. I mean, I guess just to level set the GO margins for the year for 2024, Michael, we've always been saying and no change, frankly, to the guidance that we have, that's going to be slightly down because as you know, we had a one-time item in Q4 last year which was high margin. So when you exclude that, frankly, you're basically flat underneath that for 2024 versus 2023. That's point number one, no change of GO margin and we gave all that guidance on – in the earnings script.

Secondly, I would just say, in terms of what we saw even in the quarter, to Rex's point, the underlying NOG margin, which is the core manufacturing margin that actually was – we're chewing through all the inefficiencies we've been seeing the past couple of quarters. But I was looking at that the other day and those margins are actually up year-over-year sort of on an underlying basis. And as Rex said, as you're having this kind of acceleration in growth in the more call it immature development programs, which is really what you saw, right, a very strong revenue quarter in Q2, you're just blending in those lower margins.

And then finally, to kind of pick up on what does that all mean for two or three years out if you actually had the scenario that you depicted of CVN pushing out, the way I'm thinking about it is those margins of those more development programs will start to kind of mature, right, so that'll be a tailwind underneath the business in two or three years and that's when you start picking up kind of, oh, that starts blending just like all of our other established programs.

The last thing I'll say is that we've been pretty good at figuring out ways to grow the EBITDA in 2024-2025 and we hope to continue to grow that even if we see that tide going out. I think we've found different ways, whether it's the growth now that we're going to see in the TSG business, whether it's maturing other programs, whether it's picking up enrichment franchises. I think when you look that far out, I'm not concerned about figuring out different ways to continue to battle that situation. And we'll work with the government and hope they fill that in too.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Okay. Perfect. That's a great color. I'll keep it to one, guys. Thanks.

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Thanks, Michael.

**Operator:** Your next question comes from the line of Ron Epstein from Bank of America. Your line is now open.

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

Hey, good evening, guys.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A



[ph] Hey, Ron (00:40:44).

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

Yeah. Rex, in your prepared remarks, you seemed pretty bullish about kind of terrestrial nuclear, can you give us a little more color on that? What are you hearing and what are you seeing in terms of incoming on that?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. Yeah. On the microreactors, you mean, Ron?

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

Yeah.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. Yeah. We are bullish on it. The Defense Innovation Unit published that RFP that I referenced in the call that's asking for microreactors with power outputs in the 3 megawatt to 10 megawatt range to be put on a couple of Army basis by the end of the decade with quantity orders of up to 5 each. And so I think what we've got here is a transition from the prototyping stage on these microreactors into what I would characterize as an LRIP, a low rate initial production phase and that's very, very encouraging. That's the next step towards full rate production where hopefully we're putting out a couple of year like we do on the Navy reactors and can populate army bases or whatever the military need is. So yeah, I think it's a quite an exciting development and in some ways surprisingly early.

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

And if I may, just kind of quickly as a follow on to that, I mean, how different are these in principle than what you already do on a submarine?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Well, it's different technology, on the submarine that's pressurized water reactor technology...

**Ronald J. Epstein**

*Analyst, BofA Securities, Inc.*

Q

Yeah.

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

...and that's where it originated in the recover program, although it's advanced very dramatically over the decades, it's still that that kind of architecture. In the case that we're talking about here for these microreactors to go on military bases, by and large, those are – those would be high temperature gas reactors. So they're cooled differently, moderated differently. They have different types of fuel. And I think notably, these things have – these things will have high assay, low enriched uranium, generally TRISO kind of fuel. So there's a very interesting fuel

opportunity for us regardless of kind of the – which particular design is chosen. In that TRISO fuel, as we've articulated on prior calls, is inherently safe fuel because it's – because you capture the fission products at the level of the fuel grain and these reactors are also designed to have negative reactivity coefficients they call those when it reaches a certain temperature, and so it shuts itself down. So the – so materially different in the type of technology and certainly different in the way that safety is managed on those systems.

**Operator:** Your next question comes from the line of Thomas Meric from Janney Montgomery. Please go ahead.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*

Q

Hey, good evening, gentlemen. Thanks for the time. Just a few for me. I'll start on tech-99. Rex, you mentioned some early conversations and I'm curious if you could kind of give any more color around what those conversations are focused on, whether it's term, volume, scale up, quality, price, anything stick out from that initial marketing?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah, it's all of the above. It's – we're sharing the – certainly sharing the details of the product quality with potential customers and testing that material. And it's leading to certainly discussions around commercial terms. Robb LeMasters has been working with Jonathan Cirtain in that business in that particular area. So let me ask Robb, if he would like to add any color there.

**Robb A. LeMasters**

*Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.*

A

Yeah, sure. Yeah. So there's really five distributors in the market that [indiscernible] (00:44:25) in the North American market that's where we will be launching first. And so we're going to target we know who those people are. We know where their radiopharmacies are. We've been kind of studying that for the past couple of years. And what's exciting is that you can reach out now and really exchange agreements and talk about what time they want to take delivery, what – and start testing whether or not it truly is a drop in replacement.

So when you can actually show up and do that business development activity with life circumstances, we're seeing that other that all the all five of those frankly are saying yeah, we'd love to have a third supplier. As you know, there's two other and we have a differentiated product and at a minimum, it just increases the ability that for them to have a couple of different providers, I think we'll eat in pretty substantially to the incumbents there, but we're happy to show up and prove that our product will be reliable, will be on time, will have all the benefits that we've been advertising to all of you. And I think we're just seeing customers say, yeah, that's kind of makes sense to us. So we're discussing term, price, logistics, everything, right, and getting ready so that then we can quickly get into the market when that happens.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*

Q

Helpful. Thanks. On microreactors, curious if there's any timeline you could share for Project Pele specifically, if there's kind of a testing campaign schedule that is worth kind of remembering and paying attention to?

**Rex D. Geveden**

*President, Chief Executive Officer & Director, BWX Technologies, Inc.*

A

Yeah. So the development phase is going on now, finalizing design, exercising the supply chain. We'll do that reactor assembly in Lynchburg, Virginia at our Advanced Technology Center and then we'll ship it out to Idaho. And the plan is to have a testing campaign at Idaho National Laboratory that would run through the middle part of the decade. So all of that will develop over the next few years.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*



Thanks.

**Operator:** That concludes our Q&A session. I will now turn the conference back over to Mr. Chase Jacobson for closing remarks.

**Chase Jacobson**

*Vice President-Investor Relations, BWX Technologies, Inc.*

Yeah. Thank you, everybody, for your interest in BWXT and joining in and for your questions. We look forward to seeing and speaking with many of you in the days and weeks ahead, over the phone and in person. If you have any questions, you can reach out to us at investors@bwxt.com. Thank you.

**Operator:** Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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