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BWX Technologies, Inc. (BWXT)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to BWX Technologies First Quarter 2022 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 conference call over to our host, Mark Kratz, BWXT's Vice President of Investor Relations. Please go ahead.

Mark A. Kratz

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you, Matt. Good evening everyone and welcome to BWXT's first quarter earnings 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 first quarter earnings presentation, which 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 and in our SEC filings. We will frequently discuss non-GAAP financial measures, which are reconciled to GAAP measures in a separate presentation, it can also be found on the Investors' section of the BWXT website.

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

Rex D. Geveden

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

Thank you, Mark, and good evening, everyone. Earlier today, we reported solid first quarter 2022 results. Revenue was up to \$531 million and adjusted EBITDA was \$94.4 million, demonstrating consistent operational and financial performance, despite some headwinds from COVID-19 absences early in the quarter. Equally as important, BWXT continued to move forward on several strategic growth initiatives. So, let me give you an update on those before I turn the call over to Robb to walk through the financial details.

As noted in the earnings date announcement and detailed in our earnings release, we are in the final stretch in qualifying the Tech-99 generator production line. We spent the majority of the last two months conducting a comprehensive series of hot chemistry runs to fully test and optimize the manufacturing line to support our application to the FDA. This testing [indiscernible] (02:05) last month and achieving process qualification acceptance of our radio chemistry system. Over the next couple of weeks, we will be conducting end-to-end process qualification runs ahead of the first of three registration batches, which will generate the final dataset for the FDA package.

I want to express my gratitude to the team at BWXT Medical for their dedication and conviction in this endeavor. This first of a kind project has been enormously challenging. While this is somewhat typical for projects of this complexity and scale in the nuclear industry, the team has nonetheless demonstrated remarkable resilience and commitment to this new product. It has been a longer road than we anticipated, but we are introducing a disruptive product with very attractive attributes into an exciting market. And we see the Tech-99 product line as a foundational portfolio product for BWXT Medical and through all this, we continue to see a very attractive business case and associated value creation.

In the Government Operations services business, we completed the contract transition for Savannah River, which occurred toward the end of the first quarter. We have now entered the fee bearing period and look forward to executing this important mission for the Department of Energy.

In March, we delivered the final design for the Pele transportable microreactor to the Department of Defense, and we are standing by for a decision on contract award for the demonstration phase. We applied our best efforts and remain confident that our approach to the demonstration phase underscored by BWXT's history and credibility in reactor and fuel manufacturing, combined with some of the most advanced nuclear technology innovations will win the day.

As these advanced reactor programs mature, we have begun to consider incremental investments not only in technology and people, but also physical space for instance and consideration for a small divestiture in 2020, we acquired a nuclear qualified facility adjacent to our main plant in Lynchburg, Virginia. We've begun to make improvements and intend to outfit that facility to house the bulk of new micro reactor work should BWXT prevail in these strategic future opportunities.

Finally, as we noted in today's earnings release, we recently closed a small, but strategic acquisition that expands and enhances our core mission and global security. The acquisition consists of two businesses, Dynamic Controls and Cunico, which supply highly engineered proprietary valves, manifolds and fittings for global shipbuilding, which complements our core naval nuclear manufacturing business. The acquisition enables BWXT to participate more fully in the US and UK Navy supply chains with strong incumbent OEM and aftermarket positions on several important naval platforms, including Virginia, Dreadnought, Astute and Ford-class vessels. These businesses, we believe, provide a beachhead for international operations that expose us to growth with allies whom we view as increasingly important, in light of recent threats to global security.

Dynamic Controls and Cunico exhibit the business characteristics we see in the rest of the BWXT portfolio. They have been sole source critical suppliers since the 1980s and share many unique differentiators, including high consequence systems design and manufacturing to exacting quality standards, long-term visibility and insensitivity to global CapEx and GDP cycles.

Lastly, on the transaction, we continue to seek global supply chain and labor shortages. We also see this as an acquisition of talented employees who have experience relevant to our core business. By and large, BWXT has been insulated from much of this global pressure, particularly on labor shortages.

Our voluntary turnover remains low relative to other industries, as we have a strong culture, long visibility into our backlog and a future built on growth and opportunity. This was a challenge during COVID, as virtual work is really not possible for most of our workforce and our employees likely benefited by remaining connected to our culture and the critical mission they serve.

In that vein, the Navy released an updated 30-year shipbuilding plan in April. Most assuring is that there are no changes to the acquisition plan for nuclear powered vessels over the next five years. Interestingly, the Navy has produced three alternative procurement schedules that extend for the balance of the 30-year plan. While each option has some variability, there is no change to the Columbia-class ballistic missile submarine procurement schedule, as it remains the Navy's top acquisition priority. The alternatives presented have some suggested procurement changes related to aircraft carriers, attack submarine quantities and a new class of cruise missile submarines to be procured following Columbia.

We continue to consult and work closely with naval reactors to understand the path the Navy is planning. The feedback we've received so far is that there is no change to the strategic baseline for the long range business forecast as we look to ensure BWXT's position to serve the needs of the US Navy.

The President's budget request for government fiscal year 2023 was also released in March, followed by the release of the future years' defense program documentation through 2027. In addition to status quo for naval reactors, BWXT programs were widely supported in the President's request. In the Department of Energy, the request has solid funding levels for uranium processing projects, including a ramp in funding for the uranium conversion and purification services and sustained funding for uranium down blending.

The DOE budget also supports the funding for the new Savannah River contract on which we recently transitioned. Advanced nuclear reactors also continue to receive support with budget requests for the three major areas in which BWXT is involved. For space, NASA received a funding request for both fission surface power and nuclear thermal propulsion and the DOE is increasing funding for space-based – the DoD is increasing funding for space based nuclear systems as well. In the DOE, the President requested that the advanced reactor demonstration program continue to be funded.

And lastly, the Strategic Capabilities Office request for the transportable nuclear reactor project Pele is in line with the transition from design to demonstration later this year.

With that update, let me turn it over to Robb.

Robb A. LeMasters

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

Thanks, Rex and good evening, everyone. Let's start with total company results on slide 4 of the earnings presentation. First quarter revenue was solid at \$531 million, up about a 0.5% compared with the first quarter last

year, driven by growth in Government Operations, which was partially offset by a decline in Commercial Operations.

As expected, first quarter adjusted EBITDA was down year-over-year to \$94.4 million, which was driven by a reduction in recoverable CAS pension income and slightly lower operational performance. First quarter earnings were \$0.69 per share, off about \$0.01 from operations and more so by lower recoverable CAS pension income. We also had fewer foreign exchange gains reported in other income. These headwinds were partially offset by a lower share count.

As typical with our first quarter, we had modest operating cash use. This quarter, we utilized about \$5 million of cash in operations compared with \$98 million provided by operations in the prior year period. The majority of that difference was due to a single \$88.7 million cash receipt that occurred in the first quarter of 2021 that normally would have been collected before the end of 2020.

CapEx, on the other hand, was down significantly to \$52 million in the first quarter of 2022 as we begin to wrap up major capital campaigns for the Navy business and the Tech-99 generator commercialization line. This resulted in a free cash flow use of \$58 million for the first quarter of 2022. We have detailed our first quarter EPS bridge on slide 5.

Now I will now move to segment results on slide 6. In the first quarter, Government Operations generated \$432 million of revenue, up 2% driven by long lead material production in the naval reactors business, higher volume in uranium processing and higher volume in advanced technologies related to micro reactors work. These increases were partially offset by lower missile tube revenue as we complete the remaining contractual obligations.

First quarter Government Operations adjusted EBITDA was down 3% year-over-year to \$84.7 million, driven by lower recoverable CAS pension income and fewer positive contract adjustments due in part to lower productivity in the naval reactors business. The business was impacted early in the quarter by inefficiencies related to COVID-19 absences during the Omicron variant surge. Excluding pension, segment adjusted EBITDA would have been up year-over-year in line with revenue.

In Commercial Operations, revenue was \$100 million for the first quarter, down 7% driven by lower commercial nuclear power field services, which were higher in the first quarter last year due to a particularly large outage project. This was partially offset by higher fuel handling in the commercial nuclear power business and higher BWXT Medical revenue year-over-year. First quarter Commercial Operations adjusted EBITDA was down 5% to \$10.7 million, as lower revenue was partially offset by a more favorable product mix.

Turning now to guidance on slide 7, while first quarter performance was about what we expected or perhaps slightly better, we do see a modest interest expense headwind building through the remainder of the year. We have updated our interest expense expectation to a range of \$35 million to \$39 million versus our prior range of \$30 million to \$35 million.

We look forward to seeing how the second quarter operations progress and calibrating the remaining risks and opportunities for the remainder of the year. So with our performance to-date and given we are only through the first quarter of the year, we are reiterating guidance and still feel that the midpoint of our EPS guidance and three consensus is aligned with where we will finish 2022.

As we discussed in the last earnings call, we see second quarter EPS stepping up sequentially driven by the transition of the Savannah River contract and a seasonal increase in outage services work for commercial power. As the year unfolds, we anticipate that EPS will continue to build ratably thereafter.

Switching gears to the acquisition, as Rex mentioned, we view this addition to BWXT as strategically important as it will enhance and expand our core naval nuclear business. It is very rare that we find businesses with attributes similar to that of our core business, and in this case is right in the bullseye. These two businesses provide BWXT with an expanded global installed base with life of platform components on every nuclear powered submarine used by the US and UK Navies. The addition of Dynamic Controls and Cunico are factored into the reiteration of our outlook as the financial impacts of the acquisition fall within the initial guidance ranges.

So let me give you some of the specifics on the deal. We purchased these businesses for \$50 million and the two acquired entities have a combined annual revenue of about \$20 million. So less than 1% of BWXT's total revenue, but are expected to grow nicely over time, because of the proprietary and critical nature of the products, these businesses generate about 20% EBITDA margins similar BWXT's core business. When you consider depreciation and amortization, which we did not plan to non-GAAP given the size, the deal will be slightly positive at the op income level this year. After a year of growth, we expect the deal to be very modestly accretive to EPS in 2023 and beyond.

Lastly, I want to close my remarks on some observations I've made over my first six months as CFO and aspirations we have moving forward. As I've made my way deeper into the organization, I continue to be impressed by the culture of continuous improvement. This is clearly evidenced in the Navy business and was a core principle we inherited from Admiral Rickover that remains today. It is part of the BWXT DNA and really when I think about honing the business, I think about leveraging that culture and capability more broadly.

For me, particularly in the finance organization, we will continue to elevate our performance in financial analysis, planning and communication of working capital, investment decisions and forecasting, just to name a few. One of my other top priorities is to focus on driving free cash flow conversion, which we laid out as an important component of our medium-term guidance. A major element of that target is ensuring that our working capital is managed as efficiently as possible, both in the near-term with enhanced analysis and optimizations, but also through longer term structural changes that could benefit the company's use of cash.

However, the largest near-term driver of generating more free cash flow is CapEx. As CapEx transitions to more of a maintenance level, our first opportunity to achieve this would naturally be 2023. We believe the next couple of years will show a return to a more normalized level of spending with only modest growth capital to turbocharge our strategic initiatives. While we haven't fully committed to any of these new investments, we continue to see the most likely targets of any future growth CapEx to be in space and defense reactors or nuclear medicine manufacturing. In any case, we see such investments at tens of millions each that would be spread across a couple years. We will be transparent in sizing these and explaining why we find these to be compelling ROIC projects.

Our nearest term opportunity would be facilitating for the Pele terrestrial microreactor and see such an investment to be less than \$30 million of incremental capital beyond the amount we are spending in our normalized CapEx.

My final area of focus has been to enhance our transparent communication with investors, analysts and other stakeholders. Most recently, BWXT was named one of the world's 100 most transparent companies by Transparency Global and we embrace that award and believe it is present in the foundation of the BWXT culture.

So, our goal is to continue down this path, making improvements along the way to maintain the trust of our customers and shareholders.

With that, let me hand it back to Mark.

Mark A. Kratz

Vice President-Investor Relations, BWX Technologies, Inc.

Thanks, Robb. That concludes today's prepared remarks. Operator, please go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Pete Skibitski with Alembic Global. Please go ahead.

Peter Skibitski

Analyst, Alembic Global Advisors

Hey, good evening, guys. So, that was pretty thorough, but I have a few questions. Rex, you guys touched on the labor force, but I just wanted to make sure, do you guys have any issues with hiring during the quarter and any issues with either material or labor inflation, in ways you can kind of quickly pass along to the customer?

Rex D. Geveden

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

Pete, I'd say that the situation has generally been pretty good for us because of the factors that we noted in the call. We do have a business with a highly visible backlog and people that are interested in long term careers are attracted to the business.

That said, it is a pretty tight labor market. We're starting to see some challenges around that. I think we're addressing those all right. I would tell you that probably the most acute challenge we had is around getting radiopharm techs in the Canadian market to support our work there. That's been probably one sort of local challenge; but generally speaking, we've been in a pretty good shape. Our voluntary turnover has been remarkably low in this environment, and I think we're up to meeting the hiring challenge.

Peter Skibitski

Analyst, Alembic Global Advisors

Okay. Sounds great. And then on a couple of the incremental opportunities, Pele, and then the DARPA/DRACO program. Any sense of how big this Pele the demo word could be? And then on DRACO, it seems like they're kind of reopening up the full competition. Are you guys going to kind of play at a higher level in that? Or are going to attempt to play at a higher level in the re-compete?

Rex D. Geveden

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

Yes. So on the first – on the former, Pete, the Pele program, as I've said from the beginning on these that we – the technology and design phases would be contract awards in the tens of millions and that's what we've shown historically. I think the demonstration programs are in the range of a few hundred million is a good way to think

about the scale on those opportunities. And then in terms of the DRACO opportunity itself, right, yes, certainly DARPA has reopened that competition. We expect to play there. We expect to be competitive. And I think it's an exciting opportunity for us.

Peter Skibitski

Analyst, Alembic Global Advisors

Q

Okay. That's great. One last one for me, just the bookings in the commercial segment were really strong this quarter. What's that an indication of, I'm just curious? And I was curious of the sub unit within commercial, in particular.

Robb A. LeMasters

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

A

Yeah. So it's a broad set of things. It's Robb. Thanks for the question. It's a broad set of really initiatives across the Canadian space for all of our customers. I wouldn't call anything out specifically. It's really just generally a pretty strong environment for us. And so, we're seeing a lot of work in all of our facilities up there.

Peter Skibitski

Analyst, Alembic Global Advisors

Q

Okay. Pretty good visibility to revenue guidance at this point, given that commercial.

Robb A. LeMasters

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

A

Yeah. That's right. Yeah. We had provided guidance specifically for that segment or tracking quite well within that range. We see some good signs that will be with us for a couple of years. Good outlook there.

Peter Skibitski

Analyst, Alembic Global Advisors

Q

Okay. Thanks so much, guys.

Rex D. Geveden

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

A

Thanks, Pete.

Operator: Our next question will come from Jon Tanwanteng with CJS Securities. Please go ahead.

Bob J. Labick

Analyst, CJS Securities, Inc.

Q

Hi. This is Bob Labick from CJS. I'm not sure. Anyway.

Rex D. Geveden

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

A

Hey, Bob.

Bob J. Labick

Analyst, CJS Securities, Inc.

Q

Can you hear me? Hi. Hi. Curious about that one. Anyway. Thanks for taking my questions. I wanted to talk about the Tech-99 generators, very excited you continue to make progress there. Maybe give us a sense, what are you, you know, what are the final stages, what are you working on? What are you tweaking now? Is it like – is it purity? Is it the amount of carries per batch in generator? Is it the elution time? Or what are final tweaks?

And then I know you kind of talked about this Rex, but give us a timeline again and just what are the potential hurdles before submission and walk us through the next, I don't know, weeks, months, whatever the timeline is?

Rex D. Geveden

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

A

Yeah. Sure, Bob. Thanks for the question. Yeah, we had hoped to submit to the FDA in the first quarter very obviously. We encountered a few problems in the course of the quarter, some of those were kind of normal things. We did have some people challenges. We had experienced COVID surges at our Canada plant and also down in our Cambridge plant in the latter part of the quarter from March and then on into April. We also, I said this in, in answering Pete's question about the workforce. We have had some challenges, you know, hiring and keeping rad techs, radiation technicians in that market. And so we had hoped to be on a tempo of about three hot runs a week and we've really been able to accomplish more like two. So that slowed us down just a bit.

And we have had some equipment supply chain issues, kind of like what a lot of companies are talking about these days. But what's ahead of us is, we've completely – we've finished with the qualification of the radio chem line. We're going through the radio pharm line qualification right now, and we'll go through three or four runs of that and then we'll be into the reference batches for the FDA. And so, it's our expectations – it's our expectation to have the bulk of that activity wrapped up, let's say this month, that'd be followed by assembling our data and getting it into the FDA. So, I think it's a second quarter kind of a target at this point.

Robb A. LeMasters

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

A

I might add Bob that we are looking at making the filing and we've talked about in the past, we are strongly consider doing an expedited review with the FDA and what that entails is definitely making sure that all of our information is perfect.

And so maybe as an outsider and looking in, I can say that the culture of BWXT is always about sort of measured twice, if not three times and cut once. And so our culture on this one is to get this a perfect product. So down the stretch, we've really, you know, just improved everything to make the perfect submission. And so I think there's a little bit of, on us, of making sure that everything's ticked and tied even better than what we thought a couple of months ago. Just to make sure we have a perfect product, we're entering this space. We want it to be a good thing to hit the ground. So, maybe there's a little bit of that, a little bit of, you know, making sure it's more than perfect.

Bob J. Labick

Analyst, CJS Securities, Inc.

Q

Got it. Okay. Great. And in terms of, you know, I understand you have to do all of, you know, this – for the regulation and everything else, but the product itself, where is it versus your expectations? You know, 6 to 12 months ago, is it, you know, performing as well as you want? Are there still modifications you have to make in that regard? Or, you know, what are the – what's the performance like?

Rex D. Geveden

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

A

Yeah. So the performance, I've never had concerns about the product quality, Bob. We have always thought we'd introduce a product that's, you know, as good or better than anything on the market. And we believe that to be the case. And so it's really not about, you know, it's not about tweaking for product quality. It's really more about tweaking for production efficiency, I guess is the way I would put that.

So you've got to go through these qualification runs and you have to have everything run perfectly. Robb was kind of alluding to this, because once you get into qualification runs, those become runs of record for the FDA. And so we've been quite careful about that, about making sure that the process is exactly right. Product quality and risk of FDA approval have never been a concern for me.

Bob J. Labick

Analyst, CJS Securities, Inc.

Q

Okay. Super. And then just one other question. In terms of I don't even know what segment falls in the government, I guess. But you know, NSG, former NSG or TSG, any update on kind of outstanding bids, I know Savannah has now turned fee bearing, which is great. I think there was a protest potentially, Y-12 Pantex. I don't know where that stands. Just any updates on other – former NSG operation bids?

Rex D. Geveden

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

A

Yeah. So the big three that we talked about over the last year or so was the Savannah River Integrated Mission Cleanup Contract. Obviously, we prevailed in that one and we're in the execution phase on it. Y-12, Pantex was the largest of the opportunities from a revenue scale perspective that one is – was in protest and is now in a phase with the DOE called corrective action. And the DOE has not completed that phase and so we're kind of standing by to see what the outcome of it is. Net result of all that is we're still competitive. We're still in the hunt on that one.

And then the final one that we've talked a lot about is the Hanford tanks disposition contract, which is to clean up the liquid waste in the Hanford tanks. That one has submit – has been submitted. We've gone through orals on it, the government's in their evaluation phase. And I think we would expect an announcement on the award around the end of the year. There are some other smaller ones, but those are the big three that we're keeping our eyes on and we feel competitive for all of them.

Bob J. Labick

Analyst, CJS Securities, Inc.

Q

Superb. All right. Thank you so much.

Rex D. Geveden

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

A

Thank you.

Operator: Our next question will come from Pete Osterland with Truist Securities. Please go ahead.

Peter Osterland

Analyst, Truist Securities, Inc.

Q

Hey. Good evening. I'm for Mike Ciarmoli this evening. Thanks for taking our questions. So first just had a follow up on Tech-99, do you have an updated estimate for the remaining startup costs associated with it? And have there been any changes to either your growth outlook or sales expectations for the nuclear medicine business as a whole over the next few years versus what you originally discussed last year's Investor Day?

Rex D. Geveden

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

A

Since incrementally increasing costs related to getting the FDA application done, but not – nothing that's meaningful to the business. I would say, our views of how much market we can get, our competitive position in the market have not changed materially. We still feel very strong about that product.

Peter Osterland

Analyst, Truist Securities, Inc.

Q

Great. Thanks. And then switching gears. Do you have any updates you can share on the office opportunity. Have you spoken with a customer and do you have a sense of what timeframe it could be for any potential sales related to office?

Rex D. Geveden

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

A

Not much to say on that one. We're not in the middle of that negotiation, that's happening at government level. And so I'd say, there's not much to offer there and certainly no timeframe to go. Other than to say that at the beginning of this process, the Australians, and the UK and the US said there would be an 18-month study phase and we're probably eight months into that timeline. So, I would expect to hear something around the beginning of next year.

Peter Osterland

Analyst, Truist Securities, Inc.

Q

Great. Thanks for taking the questions.

Rex D. Geveden

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

A

Thank you.

Operator: Our next question will come from Peter Arment with Baird. Please go ahead.

Peter J. Arment

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

Q

Yeah. Good afternoon, Rex and Robb, Hey, Robb, can I just come back to your the – when you made some comments, just a clarification, about how long do you expect the priority review or at least that part of the updation lasts? I had previously thought it was under a year, but maybe could you clarify that?

Robb A. LeMasters

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

A

Yeah, we've generally said, I mean each application has its own timetable, but generally we've been told by – a set of consultants that generally you should expect about six to nine months for that review.

Peter J. Arment

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

Q

Okay. Oh, that's great. And then just unrelated Rex, just on the supply chain, it seems like just about every company out there is talking about it maybe and I'm sorry, if I missed this in your opening remarks, but what are you guys seeing, are – you've been pretty good so far throughout this whole challenging time, but any new updates there would be helpful?

Rex D. Geveden

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

A

Yeah, not much there, Peter. I would say that on the naval reactors business, nuclear operations, it's been pretty good. We're generally in long-term relationships with our supply chain there that's been very stable. It's been stable on the commercial nuclear side and Canada as well, really no disruptions or problems there. The one place we've seen it are the hiccups around the Tech-99 program where we've had, we'd have something like, I mean, just as an example, a digital probe would fail and something you can normally get the next day would end up taking a couple of weeks, 2.5 weeks. And so we've had some of that kind of effect show up in the medical business. But for the most part, we've avoided any big consequences of the supply chain disruptions.

Peter J. Arment

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

Q

Okay. And just, if I could sneak one more. And just on the M&A. So this seems like a pretty unique and good fit from what you're doing there. Maybe could you talk about, is there other types of pipelines out there for you to do things like this or was this just a unique opportunity?

Rex D. Geveden

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

A

Yeah, I think so, Peter. I mean, there are assets like this around, this one's pretty small scale. Hopefully, we can step it up and scale in the future. But the idea there was to, it's hard to grow our core business, obviously, because of the share that we have there, which is all of it for the components that we make. And so the thesis was, let's go ahead and find something that has characteristics similar to the core business, highly engineered products, high average selling price, sole source for the most part, about 80% of this business is sole source as it happens. And so, if we can find that set of characteristics, then I think we're a buyer. And certainly if it's as close to the core business as this one is, this one's really right there, when you're making check valves and seawater manifolds, which are cannot fail systems, then it really is in our sweet spot.

The particular nuance here is that this is not nuclear work. It's critical naval component work, but it's not nuclear work except for we do have some exposure to commercial nuclear power in that business with some valves they sell into that market. So, very interesting fit to our business. The financial characteristics also fit and we'd like to see a pipeline of assets that look like this, but hopefully on a larger scale.

Robb A. LeMasters

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

A

Yeah, we think it's possible. Just to add a little color around it financially, too. It's a pretty unique asset as Rex described. We bought this inside. You can do the math of sort of the EBITDA. We bought this inside our own traded multiple, which is pretty unique. So all the synergies and all the possibilities of using this as a platform, both internationally as well to expand our TAM as well as just general synergies between the two businesses are all kind of on us.

So we feel pretty excited about the purchase price. We think it could lead us to other acquisitions down the road. We are going to definitely be conservative, integrated, see how it goes before we move on to other alternatives. But we think we're a good buyer in this market. We actually believe that the price that we put on the table was inside other offers. It was a sole proprietor in our vision of how we connect the dots between our business and international and just general non-nuclear work, acquiring precision manufacturing businesses like that, sort of spoke to that sole proprietor. And so we're pretty happy with overall financial as well as where this could take us strategically.

Peter J. Arment

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

Q

Appreciate the color. Thanks.

Rex D. Geveden

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

A

Thanks, Peter.

Operator: [Operator Instructions] Our next question will come from David Strauss with Barclays. Please go ahead.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Hey, thanks.

Rex D. Geveden

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

A

Hey, Dave.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Rex – hi – hey, Rex. So, I think you mentioned potentially about having some exposure to Russia in terms of the moly that you need to ramp up to. Can you talk about that and what your exposure may be to Russia?

Rex D. Geveden

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

A

Yeah, sure, David. A couple of – but there's a – I mean there are general effects obviously on the business, but the particular ones, there are kind of two things there. One is, we had looked at purchasing some enriched moly for a very special purpose on the moly-99 program, having to do with filling a gap and a service outage. It's not material really, but it's something we'll have to work around now, a very minor effect.

So, that's a slight negative to the business. I would say a potentially interesting positive to the business is that the advanced reactors, most of the advanced reactors are designing for HALEU fuels, High Assay Low Enriched Uranium fuels that they had expected to get from Russia. And that's probably not a possibility now.

So, in order to meet the near-term needs for advanced reactors, the likely solution is to down blend high-enriched uranium to high-assay low-enriched uranium. And we would be the only source for that. And so I think there's a potential upside in the business around that one. And we have discussions with Department of Energy around

that topic. So, I'd say net positive, when you think about the impact of the invasion of Ukraine and certainly if you integrate the sort of the global security effects on the defense market, in general, it's certainly a positive.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Okay. Thanks. And Robb, you touched on working capital and the opportunity there. Could you potentially frame that, would you see as the opportunity? And then also when you're thinking about leverage and where leverage, post the acquisition, where does leverage actually stand now? Thanks.

Robb A. LeMasters

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

A

Sure. Yeah. So I think we're in a phase right now of really understanding and analyzing what our working capital position is. We took the opportunity to provide some view of operating cash flow for this year and we expect to continue to do that the next couple of years in overall free cash flow.

But as I see it, I think it's a lot of singles and doubles in terms of instituting and understanding around what some – what are some of the terms or our offering to different suppliers and customers and so forth. And so we're kind of going methodically through that and making sure in all our business lines that we're considering not only sort of the earnings potential from future business but also the free cash flow.

I think we've brought up in the past that we had a contract related to Bruce Power that was a US\$0.5 billion and we're working our way through that. We have one year of headwind left in that, being the year that we're in. And then it slowly turns to sort of a good guy. So that will be helpful for us. We put out there that we hope to ultimately get to 85% conversion. I think we have a line of sight to that.

The second one on leverage, I would say we're actually had a pretty good place right now. We did a good bit of buyback activity last year. We're scratching at the upper limit of our kind of 2% to 3% range, that that's kind of a leverage level that we've been comfortable, we're just a hair below that. If you look at our debt to EBITDA on a trailing basis and so we feel pretty good about where that stands. Would we go a little bit touch higher for a deal or two, that really was strategic, we would – but we want to preserve flexibility. So, we're kind of going to be in that 3-ish times plus or minus I think for the near term. We did buyback about \$20 million of stock in the first quarter and we'll continue to review that opportunistically. So, we're kind of in a good place, I think, from a leverage standpoint.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Okay. Great. Thanks very much.

Rex D. Geveden

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

A

Sure.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mark Kratz for any closing remarks.

Mark A. Kratz

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you for joining us today, everybody. If you have further questions, you can reach us by phone at 980-365-4300 or email at investors@bwxt.com.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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