BWX Technologies

Third Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

Alan Nethery – *Chief Investor Relations Officer*

John Fees – *Executive Chairman*

Rex Geveden – *President and Chief Executive Officer*

David Black – *SVP and Chief Financial Officer*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to BWX Technology Inc's Third Quarter 2017 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. Please note this event is being recorded. I would now like to turn the conference over to our host, Mr. Alan Nethery, BWXT's Vice President and Chief Investor Relations Officer. Please go ahead.

Alan Nethery

Thank you, Anita, and good morning, everyone. We appreciate your joining us to discuss our 2017 third quarter results, which we reported yesterday afternoon. A copy of our press release is available on the Investors section of our website at bwxt.com. Joining me this morning are John Fees, BWXT's Executive Chairman; Rex Geveden, President and Chief Executive Officer; and David Black, Senior Vice President and Chief Financial Officer.

As always, please understand that certain matters discussed on today's call constitute forward-looking statements under federal securities laws. Forward-looking statements involve risks and uncertainties, including those described in the Safe Harbor provision at the end of yesterday's press release and the Risk Factors section of our most recent 10-K and 10-Q filings. These risks and uncertainties may cause actual Company results to differ materially, and we undertake no obligation to update these forward-looking statements except where required by law. On today's call, we may also provide non-GAAP financial measures, such as adjusted earnings per share, that are reconciled in yesterday's earnings release and our Company overview presentation, both of which are available on the Investors section of our website. BWXT believes the non-GAAP measures provide greater insight and transparency into the Company's operational performance, and provides these measures to investors to help facilitate comparisons of operating results with prior periods and to assist them in understanding BWXT's ongoing operations.

And with that, I will now turn the call over to John.

John Fees

Thank you, Alan. BWXT has added to our streak of stellar finanical performance delivering $0.46 of earnings in this third quarter period. This is a 17.9% increase over the same period last year. Growth in the top line combined with good cost discipline drove these outstanding results. Our business model is focused on servicing a very discerning customer base, keeping the stability of our outlook, while adding to our profitability and growth and this model continues to deliver. Our revenue for the quarter was $419 million, an increase of 10.5% over the same period of 2016. Operating income climbed to $73.7 million, an 18.1% increase over the third quarter of last year while margins grew to 17.6% on a consolidated basis. Backlog grew for the prior period to $3.5 billion at the end of the quarter and by any measure, this has been an excellent quarter. Furthermore, I'm happy to report that we continue to execute well on the ambitious plan that we announced for 2017.

As you recall in the second quarter, we raised our EPS guidance by $0.12 and announced that we expected adjusted earnings to be between $1.97 and $2.07 per share. Today we are narrowing our EPS guidance for the full year 2017 to between $2.01 and $2.07 per share. BWXT participates in markets with potential for robust growth and high barriers to entry. The Company's focus on operational expertise has earned its prolific brand name and best in class financial results. The Company plans on leveraging its highly differentiated nuclear operations technology, services, component manufacturing, materials processing, and waste management to further penetrate its existing markets and enter new markets with cost-disruptive and technology-disruptive products and services. BWXT is executing a disciplined growth strategy from a position of financial strength and premium competitive positions. In July, BWXT NEC was awarded a five-year CAD$34 million ~~Canadian~~ contract to supply seven very large motors for Bruce Power. In August, NASA awarded the Company an $18.8 million contract to initiate conceptual designs for nuclear thermal propulsion reactor in support of a possible future manned mission to Mars. In September, a BWXT joint venture with APTIM, formerly known as CB&I Services, was awarded a two-year extension on a naval reactors propulsion program decommissioning contract, which totaled $140 million, and separately, the Company's joint venture between BWX Technologies group and AECOM was awarded a $928 million extension for the contract to run the Waste Isolation Processing Plant in New Mexico. In addition, we are excited to announce that BWXT-led team was awarded a ten-year $4.7 billion contract to provide liquid waste services to the Department of Energy at the Savannah River site. This is all on top of the tremendous momentum we have in our naval reactors business. So we are seeing exciting outcomes in each of our business segments and as we move forward as well.

Now let me turn the call over to David, who will discuss third quarter results and other related financial matters.

David Black
Thanks, John, and good morning everyone. The Nuclear Operations Group, or NOG, achieved an alltime high revenue mark for a third quarter. in the third quarter of 2017, the segment generated $325 million, a 2.4% increase from the third quarter of 2016. The increase was primarily attributable to increased activity related to our naval nuclear fuel and downblending operations. Year-to-date the segment's revenue was up 2.6% compared to 2016 at $962 million and its operating income was up 14.6% to $220 million. Operating income for the quarter increased almost 15% from the third quarter of 2016 to $71.9 million. NOG continued to deliver solid operating income margins at 22.2%, a 242 basis-point increase from Q3 2016. This segment's backlog at the end of September was nearly $3 billion. Compared to Q3 2016's revenue of $36.1 million, the Nuclear Power Group, or NPG, business grew 90% to $68.6 million. Q3 2017 marks a record Q3 for the group's revenue, and operating income reached its highest Q3 level since the third quarter in 2012. Approximately 70% of the increase was attributable to the acquisition of BWXT NEC, which produced $22.5 million in the quarter. Year-to-date, the segment increased its revenue $80.6 million or 67% to $200.9 million.

Operating income for NPG in the third quarter was $9.3 million as compared to $5 million in the third quarter of 2016. Driving the increase was revenue from NEC and higher volume of actiivty associated with a legacy components business. Operating income margin for the third quarter of 2017 was 13.6%. The segment booked $116 million in the third quarter, a 425% increase from Q3 '16 and ended the quarter with a backlog of $528 million, 42% higher than the $371 million of backlog a year ago. We are on track to meet our increased revenue and margin guidance for the year and are raising the 2017 revenue guidance for the NPG segment. In the third quarter, the Nuclear Services Group, or NSG segment, contributed operating income of $1 million and has delivered over $17 million year-to-date, which includes $7.9 million of fee income associated with the settlement of a contract dispute related to task order work that was completed in 2013. NSG delivered nearly $28 million in revenues in the third quarter. Year-to-date, the segment's revenue is just over $100 million, a 5.4% increase compared to the comparable period of 2016, although the 2017 revenue result also includes the $7.9 million of fee income associated with the legal settlement just mentioned. From Q3 '16 to Q3 '17, the segment increased bookings from $20.8 [million] to $43 million. Additionally, the $5.7 billion of recent contract wins that John mentioned earlier, which followed the $1.5 billion awards for the Paducah Gaseous Diffusion Plant that we announced at the end of May positioned the segment for positive growth in future quarters. The Company's capital expenditures were $20.6 million in the third quarter, $8.2 milion higher than the third quarter of 2016. Year-to-date in 2017, capital expenditures were $18.5 million higher than the first nine months of 2016, which reflects the increased investment for the anticipated organic growth.

We are holding our capital expenditures guidance at $100 million in 2017 and will need to more than double our third quarter spending level in the fourth quarter. Similarly, R&D spending accelerated in the third quarter and the pace is expected to conitnue to increase through the end of the year. We expect R&D and capital expenditures to remain at these elevated levels throughout 2018 and possibly into 2019 as we believe that these investments in future organic growth are prudent uses of capital and will begin to contribute meaningfully late in 2019. Depreciation and amortization totaled $13.9 million for the third quarter, up $1.5 million due largely to the acquisition. Our GAAP effective tax rate is 31.6% through the first three quarters of the year. We are monitoring tax reform efforts and considering tax planning initiatives that might develop. As of September 30, 2017, the Company's cash and short-term investments position net of restricted cash was $206.4 million. Third quarter cash flow from operating activities generated $80.7 million compared to a generation of $19.5 million in the third quarter of 2016. As of September 30, 2017, we had $521.7 million of borrowing in term loans, including those made available under the September 2016 amendment, no borrowings under the revolving line of credit, and letters of credit totaling $78.7 million. As a result, the Company has $321.3 million of remaining availability under our credit facility.

On November 3, 2017, our board declared a cash dividend of $0.11 per common share payable in the fourth quarter of 2017. As we mentioned last quarter, we will adopt the updated pension guidance that the FASB issued in March of 2017, beginning in 2018. These income statement classification changes will not impact our EPS or net income but willl alter operating income and margins at the consolidated and segment levels, reducing what we report as operating margin in NOG, our largest segment, by 150 to 200 basis points. We continue looking at options to de-risk our pension plan.

Now, I'll hand the call over to Rex for a discussion of the segment operations and the outlook for the remainder of 2017. Rex?

Rex Geveden

Thank you, David, and good morning. John and David have already summarized our accomplishments so far this year and I will now provide some additional operating details. As discussed, we reported robust revenue and operating margins in the third quarter, oprimarily driven by strong results in the Nuclear Operations and Nuclear Power segments. Perhaps equally important, we are now experiencing a resurgence in the Nuclear Services Group backlog with a cluster of important contract awards and contract extensions throughout this fiscal year, which will lead to impressive earnings growth in the coming years. The Canadian market continues to drive growth for NPG, both in our legacy business and the BWXT NEC business. We remain well pleased with this acquisition and continue to see significant cost synergies materialize. We also expect to see significant revenue synergies come to fruition in future quarters. This positive sentiment is underscored by NPG segment operating margins inclusive of intangible amortization of nearly 13.6% in the third quarter. We expect this business to maintain 12% margins going forward. Nuclear Operations delivered operating margins that are 240 basis points above Q3 of 2016. As a reminder, upon adoption of the pension accounting change in 2018 that David mentioned, we do expect margins in Nuclear Operations to drop by 150 to 200 basis points. However, we anticipate that NOG will continue to have a FAS/CAS pension benefit of 200 to 300 basis points for several more years.

Operationally, we remain confident in the execution of our current contracts and future awards in the pipeline. We continue to see the missile tube market as a strong area of growth, and I am pleased to report that we have successfully completed the first two common missile compartment, or CMC missile tubes. We have contracts to manufacture about half of all the missile tubes that have been awarded to date, and continue to project a total market share of about 60%. In accordance with prior plans, we are well capitalized for higher production rates, and are well positioned to compete for future awards in this market.

The growth story in Nuclear Services has clarified given our solid base of current contracts and more than $7 billion in awards announced over the last six months, including the $4.7 billion award for Savannah River liquid waste services announced in October. This contract award, which is presently under protest, includes a seven-year base period as well as the option for an additional three years. It is the first large prime position for BWXT in the DOE technical services space since the Pantex Y-12 contract award at the turn of the millenium. We have also completed the transition at the Paducah Gaseous Diffusion plant in Kentucky as part of the deactivation and remediation work under that new contract in October.

At the consolidated level, we have booked approximately $190 million of new orders in the third quarter of 2017. Consolidated backlog remains high at $3.5 billion, which is 4.4% above the third quarter of 2016. Nuclear Operation's backlog remains strong at nearly $3 billion. The Nuclear Power Group continues to build backlog, ending the third quarter with backlog of $528 million, which is 42% higher than the prior period. As John said, we increased the lower end of our guidance range for the full-year 2017 and now expect an adjusted earnings per share of between $2.01 and $2.07. Adjusted earnings per share exclude any mark-to-market adjustments for pension and postretirement benefits recognized during 2017, and other items listed in the non-GAAP reconciliation tables found in Exhibit 1 of our earnings release. We also expect NPG segment revenues to increase to between $275 million and $290 million for 2017. All other guidance elements for 2017 remain unchanged and we are on track to achieve each of them, including the acceleration of Capex as well as the R&D spending that David highlighted earlier.

As we have discussed, the Company performed exceptionally well with GAAP earnings per share of $1.63 year-to-date, a 14.8% increase from $1.42 in the first nine months of 2016. On an adjusted basis year-to-date, earnings per share are 21.7% higher than the first nine months of 2016; however, recall that we forecasted the second half of the year to be softer than the first half. Contributing factors include lower production due to holidays and plant maintenance outages in the fourth quarter in nuclear operations, and higher incremental R&D expenditures in the fourth quarter compared to the year-to-date run rate, mostly related to our radioisotope technology program. From 2020 through 2022, the three-to-five year period following 2017, we'll continue to anticipate that the adjusted earnings per share compounded annual growth rate will be in the low double digits. This longer range forecast includes anticipated growth in missile tubes, adding the larger-size Columbia-class production and Virginia-class production remaining at two submarines per year. There are additional scenarios being contemplated, which would result in even higher production volume for BWXT, but they are not considered in our forecast or our current Capex guidance. Scenarios wherein the Navy procures more than two Virginia-class submarines per year, or accelerates the pace of aircraft carrier production above the current rate of one vessel every five years are not included in our strategic forecast or

Capex guidance. However, we have been planning for the possibility of increased production levels and this can be viewed as upside should any of these scenarios manifest.

We continue to emphasize five key dimensions of growth for BWXT, and they include one, demand-driven growth in Navy nuclear propulsion, including missile tubes. Two, growth in the Canadian commercial nuclear power market with abundant opportunities in reactor servicing and refurbishment. Three, technology-driven growth in Nuclear Services, including advanced reactors for space exploration and market share gains in technical services. Four, R&D-driven organic growth, which will include medical radioisotopes. And five, strategic transactions. We see significant opportunities in all of these areas, and we'll provide additional details at the appropriate time.

We do have substantial balance sheet capacity and remain committed to a balanced capital allocation approach, with a focus on investments and operational improvements that will smartly grow the business. We are confident about numerous organic growth prospects, and we'll continue to invest capital and R&D to support these opportunities. We are also actively working our M&A pipeline and see multiple opportunities that may be actionable. To ensure that we are maximizing value for our shareholders, the returns on these growth-focused investments will continue to be evaluated against share repurchases and other capital investment options. We have $193 million remaining in board-authorized share repurchases.

To conclude, we had a another robust quarter due to our continued focus on operational excellence and the buildup of our backlog. We are pleased with our progress and have narrowed the 2017 guidance. Looking beyond 2017, our strategic plan features additional growth opportunities that fit our strengths and increase options to participate in the markets that we are currently serving and interesting adjacent nuclear markets. We remain very well positioned to serve the growing US Navy, to continue to build our brand as a leading supplier to the commercial Canadian nuclear power market, and to accelerate market share gains in the Nuclear Services segment.

That concludes our prepared remarks. I will now turn the call back over to the operator, who will assist us in taking your questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star (*) then two (2).

The first question comes from Rob Spingarn with Credit Suisse. Please go ahead.

Rob Spingarn
Hi everyone, this is Joe on for Rob.

Rex Geveden
Good morning, Joe.

Joe
Good morning. I wanted to probe a little bit on the long term three-to-five year outlook and the

expectation for the double-digit earnings CAGR. I recognize that you haven't given guidance for 2018, but if you could just comment on the expected slope of that earnings CAGR? Is it possible or even likely that 2018 earnings growth is less than double digits and then '19 and '20 are firmly in the double digits once you start work on Columbia, and especially given your comments that R&D is likely to, is ramping up and likely to stay elevated for at least another year. So I just want to make sure that near-term expectations are appropriately calibrated.

Rex Geveden
Joe, hey. What I'll say about that is that our guidance had not changed. We continue to anticipate three-to-five year adjusted earnings per share CAGR low double-digit range beyond 2017. But to be perfectly clear, we've never said or implied that we would achieve low double-digit earnings per share every year in that period. So there's obviously going to be some variability, but we're very, we're extremely confident about the long-term growth prospects in that period. We haven't at this point given any guidance on '18 or '19.

Joe
Okay. And at this point in the fiscal year, what are the drivers or uncertainties that could get you to the high end versus the low end of your updated earnings range? Is it primarily just contract performance and risk retirements?

Rex Geveden
So there's a number of things that are variable. Obviously, we need to see what the Congress does with appropriations for the Navy and for additional submarines. We have things that are working through our mergers and acquisitions pipeline and various other things like that, and we'll have more information on all of those before we offer guidance.

Joe
I meant for the 2017 earnings range.

Rex Geveden
Oh, the 2017, I'm sorry. Go ahead,

David Black
Yeah, for 2017, obviously operations is a large impact of where we end up by the end of the year, so, we're just looking at what improvements we can get into the contracts and we could get closed out for the year.

Joe
Understood. Thank you, gentlemen.

Operator
The next question comes from Peter Skibitski with Drexel Hamilton. Please go ahead.

Peter Skibitski
Yeah, and just on your revenue guidance, guys, $1.6 [billion] to $1.7 billion, you kept that but you did say NPG is coming in higher. Would you go as far to say your revenue is likely to come in toward the top end of that range?

David Black
We haven't changed the revenue guidance, but yes, were going to be improving the guidance on the NPG, which gives you an indication that it's probably going to be coming closer to the

upper end.

Peter Skibitski
Okay, okay. And then the revenue headwind at services in the quarter, services revenue was down year-over-year. Could you give us a sense how much of that was the loss and the DU, I think it was the DU6 program versus how much was just normal seasonality?

David Black
Once again, inside of Nuclear Services, we don't spend a lot of time looking at the revenue, because what we have there mainly that's going through there is our wholly-owned decommissioned -- work that we do on some decommissionings, and so we put the hours through there and its wholly-owned and it's just has some variability quarter to quarter. Most everything else comes in through equity income. So there was DUS-6 and we did end that, so that was part of it. But you're still gonna have some variability in the hours there, and we don't concentrate a lot on the hours.

Peter Skibitski
Okay. I was just curious because the EBIT was pretty low, too, and you're saying that was less DU-6 and maybe more just lower hours booked on outage work.

David Black
Well, you have two things. One, when you look at EBITDA here, you know, when your equity income is going to be variable during the year, and it's a lot of times more year-end loaded because of the award fees we get from the different sites around the US where we're at, so that variability, and then you have variability in revenue is going to cause bounces in your EBIT.

Peter Skibitski
Okay. Okay. Fair enough. Thanks, guys.

Operator
The next question comes from Michael Ciarmoli with SunTrust. Please go ahead.

Michael Ciarmoli
Hey, good morning guys. Thanks for taking the question. Not to harp on it, but I just wanted to go back to Joe's line of questioning on the three-to-five year outlook. You put in there that '20 to '22 timeframe and I get it. It sounds like the CAGR is not going to be even over that five-year period but I guess coupled with the R&D, you're coming off a strong base, should we sort of calibrate expectations for something below that double-digit EPS growth rate next year and maybe even '19 given that the language now more strongly says 2020 to 2022?

David Black
Well I think, as Rex had stated just a minute ago that, you know, from '20 to '22, we are very strongly standing behind the growth that's out there at the low double digits. In '18 and '19, we have never said that it would be double-digit growth every year. In '18 and '19 we did say just a little while ago that the expenditures on R&D and capital at the higher levels that's happening this year will continue into '18 and '19. But we have not provided at this point in time guidance for '18 and '19 to give you exactly where we're going to be but we have said that it will not, it does not mean that it's double-digit growth all the way through five years.

Michael Ciarmoli
Got it.

Rex Geveden
That doesn't mean that it won't be, either. Were just, trying to. We really don't have guidance at this point.

Michael Ciarmoli
Okay. That's fair. What about on the, I don't believe you changed the Nuclear Power's segment margin for the full year. I mean, that implies, the lowest potential operating margin quarterly run rate probably in more than two years for the NPG group. I mean, how, and I know there's seasonality there and lumpiness, but, correct me if I'm wrong, but I think you're still guiding to that 12% full-year operating margin in NPG?

David Black
Yes. So were still guiding to the full-year 12% operating margin, which means that the operating margin in Q4 would have to be below 10% in order to meet that.

Michael Ciarmoli
Right. And it sounds like you have pretty good visibility on that based on, you know, what's in the backlog, timing, and outages, so that seems to be, I guess, trying to flush out what's conservatism and if there's any room for upside on that margin in the quarter?

David Black
Once again, for a long-term prospective on this business, we feel that 12% margins are reasonable for this business, so, right now, were not changing the long-term guidance there. We'll see how we do in the fourth quarter.

Michael Ciarmoli
Okay. The last one I have, more of on the services side, the ground-based strategic deterrent program recapitalizing all of the Minuteman missiles, it's been quite some time since the US has developed a new nuclear warhead. Any implications that you guys see, you know, on the services side? Is that, based on conversations it seems like there could be about $20 billion of spend just to develop the new warhead. Is that something you guys see as a potential tailwind over the coming years in that services group through the various facilities that you're JVs on?

Rex Gevenden
So Michael, we, so there's two sides of that. There are the prime contract awards that will go to the developers of the delivery system, and then there's the weapons work that goes on the weapons complex itself. We tended to be involved on the, in the weapons complex side through our activities at Los Alamos, Livermore, and related Pantex Y-12 and so on, and so that's where we see the action. I think that'll be steady and consistent business for us in the future, certainly provides a long, backlog view of that business. I wouldn't necessarily describe it as a tailwind on that side of it.

Michael Ciarmoli
Okay. Perfect. Thanks a lot, guys. I'll turn back to the queue.

Operator
Again, if you have a question please press star (*) then one (1).

The next question comes from Bob Labick with CJS Securities. Please go ahead.

Bob Labick
Good morning. Thanks for taking my question. So you discussed the medical isotope opportunity a bit at the Analyst Day and alluded to it, obviously, in your prepared remarks as well. I was just hoping you could expand on maybe even on when you'll discuss it more, the opportunity, and if you could clarify one thing as well – are you entering an existing market with a superior solution or are you creating a new market? Any color around it and timing would be helpful.

Rex Geveden
Yeah, I think we'd be reluctant to say when we can disclose a lot more detail about that one, Bob. I will say it's – we will be selling into an existing market. There are medical radioisotope markets in imaging and in therapeutics that are very interesting to us. Our technology applies to both of those areas and that total opportunities in that $2 [billion] to $3 billion range, as we articulated at the Investor Day. We're negotiating some agreements on both ends of our product that we can talk about at some point in the future, but were not prepared to say all that yet.

Bob Labick
Got it. Okay. Fair enough. And then related, on the drive in this morning I heard President Trump in South Korea, they were discussing potentially South Korea buying nuclear subs from the US. Do you guys even have capacity to be able to ramp that up or how would that impact you going forward?

Rex Geveden
So we haven't factored that into any of our thinking yet. Obviously, that's breaking news so we'll just have to follow that one and see. Was that a tweet or was that a press release?

Bob Labick
It was, I saw it in a news article and I heard it on Bloomberg this morning, so I think it was a discussion. But, anyway.

Rex Geveden
I think it's new to us. We haven't caught up with that yet, so, we'll have to catch up with that and see what that means.

Bob Labick
Okay, great. Well, thank you for your time. Thanks.

Rex Geveden
Thanks, Bob.

Operator
The next question comes from Peter Arment with Baird. Please go ahead.

Peter Arment
Yeah, thanks. Good morning, everyone. David, just maybe on the R&D expense just kind of calibrating directionally, it sounds like it's going to be ramping up but is there a level in terms of like percentage of revenues of where you see this peaking out or at least running to, you're still running well below 1% of sales, right now.

David Black

Yeah, I mean, it's going to stay at less than 1% of sales, but I mean, I think the only indication we've given you at this point in time is the fact that R&D for the fourth quarter is going to double what it was in the third quarter, and were going to sustain those levels into '18, early '19, so.

Peter Arment
Got it. That's helpful. And then just a clarification. You mentioned at the Investor Day that you had delivered your first missile tube the end of August and you were slated to do another one here in November. Is that still one track?

John Fees
Yeah, the second missile tube has been delivered.

Peter Arment
It has been delivered.

John Fees
Yes.

Peter Arment
Okay, great. That's all for me. Thank you.

Operator
The next question comes from Tate Sullivan with Sidoti. Please go ahead.

Tate Sullivan
Hi, thank you. Good morning. On NPG, with the higher revenue guidance for this year, can you give more, and it looks like the timeline for the Ontario refurbishments is unchanged from your Analyst Day, too. Can we infer that's related to Canadian unit 2 to work or does it imply a higher market share of the work in Canada?

Rex Geveden
Tate, I'll comment on that. There's a little bit of both going on here. John talked about it in his remarks. This motor awards contract that we received from Bruce Power for the large motors, that's some strategic, some revenue synergy that related to that acquisition of that GE asset, so we're seeing, and we're seeing good organic growth in that market with our legacy business and were also seeing more cost synergy and more strategic synergy than we had planned for with the acquired business, so it's good news all around in that business.

Tate Sullivan
Okay, I'll follow up on the refurbishment timelines. How far ahead of the actual refurbishments per unit will you start to get orders before the units shut down?

Rex Geveden
Well, it very much depends on what component you're referring to, but in the case of for example the refurbishment that's going on at the Bruce sites, we received an order for a steam generator probably a year-and-a-half ago or somewhere in that timeframe, and that, for Bruce at number six, which is not slated for shut down for another couple years. So some of those components that are long-lead like that can really be ordered a number of years in advance, and we're seeing some of that.

Tate Sullivan

Wow. Okay. Thank you. And then on missile tubes, I think you said you completed your first CMC tube. Can you update the next potential events in terms of missile tubes and order or award timelines?

Rex Geveden
Yeah, so we haven't disclosed the delivery schedule or anything like that but we're getting into a regular delivery tempo, I will say that. And you can expect that for years to come.

Tate Sullivan
Okay, okay. And, well, in terms of the delivery tempo but in terms of the next order, when the next orders may be awarded? In terms of updates on your market share, nothing? No updates on that?

Rex Geveden
Yeah, I don't think we've projected that yet.

Tate Sullivan
Okay. And David, just last for me, too. I think R&D, you say in your guidance it's mostly in the other section within your segments, but then I saw the unallocated corporate expenses increased meaningfully year-over-year and quarter-to-quarter and I saw, is most of that what you had commented on higher health insurance claims or can you go more detail on that?

David Black
No, that's just – that'll be just a timing so just the timing, how cost was flowing through corporate. There's no indication at this point in time that corporate costs are going up for the year. So it's just a timing thing for corporate.

Tate Sullivan
Okay, okay. Thank you very much. Have a good rest of the day.

Operator
The next question comes from Rob Norfleet with Alembic Global Advisors. Please go ahead.

Rob Norfleet
Hi, good morning, gentlemen. So, just a quick question. So looking at NSG, obviously some very good winds during the quarter. How should we look at backlog conversion as we move into 2018, you know, as you start to ramp up on some of these new contracts, in particular the Savannah River contract? And then maybe if you could provide a little bit more color on some of the additional bidding opportunities that you are looking at over the next 12-18 months.

Rex Geveden
Sure, so Rob, I'll take that one. So in terms of how that business looks going forward, I think we've always characterized that one as an equity income accounting method business. So what you see, and you don't see much in the way of top line with these contract wins, but you see a lot in the way of bottom line. We've always characterized that as an EBITDA booster. So you should see improvements in, significant improvements in margin and in bottom line as that business goes forward. We do have a number of opportunities in the pipeline, and we talked about some of those at the Investor Day, but certainly the Savannah River Management and Operations contract is one that were looking at. We still have pending awards on Los Alamos environmental management and then there are a number of things out there. The Los Alamos management and operations, and we look at all of those opportunities and make decisions

about whether we'll compete for them. There's Hanford work out there in the future, but we're generally in the competitive mix on most of the stuff that's in that pipeline.

Rob Norfleet
Okay, that's helpful. And then in terms of that first question I asked, really what I meant was if you look at the term, for example, like a contract like Savannah River, will the operating income or the fees that you earn be consistent across the eight years, or will it ramp in year one and then reach a plateau and go down? I just want to understand the amount that you earn on an annual basis.

David Black
Oh that one. So that's actually pretty lumpy because there's a lot of performance incentives built into that one. Others, depending on their nature, can be a lot steadier and you can get predictable income year to year. But Savannah River, it will be pretty lumpy.

Rob Norfleet
Okay, great. And just, David, my last question. You obviously noted the impact that obviously that the pensions going to result in terms of the margins at NOG. What are some of the things that you are looking at to do to potentially smooth that out?

David Black
Well obviously, any time you talk pensions and de-risking, you're looking at, is there an opportunity in today's market to annuitize and not take a lot of funding, so those would be the types of things that, you know, other than keeping track of our investments and what we're earning on those investments as we apply them, so those are the types of things that we would look at.

Rob Norfleet
Okay, great. And then lastly, I know you discussed this at Investor Day briefly, but can you just walk us through again what your M&A pipeline looks like? Just the opportunity set?

Rex Geveden
So I don't think we were specific in the Investor Day on what's in the M&A pipeline. But I can say that, and John used these words at the Investor Day, we haven't targeted transformational acquisitions and mergers. What we've tended to look at is, are things that are in the nuclear space, things that are adjacent to these for us, things that have high strategic fitness, so those are the characteristics that we're looking for generally. And we see interesting targets that have those characteristics.

Rob Norfleet
Great. Thanks, and congrats on the good quarter.

Rex Geveden
Thanks a lot.

David Black
Thank you.

John Fees
Thank you.

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

CONCLUSION

Alan Nethery
Thank you, Anita, and thank you everyone for joining us this morning. That concludes our conference call. A replay of this call will be posted on our website later today and will be available for a limited time. If you have further questions, please call me at 980-365-4300. Thank you.

Operator
This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.