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BWXT - Q4 2019 BWX Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

David S. Black *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Mark A. Kratz *BWX Technologies, Inc. - Director of IR*

Rex D. Geveden *BWX Technologies, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Matthew Carl Akers *Barclays Bank PLC, Research Division - Research Analyst*

Michael Frank Ciarmoli *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Peter J. Arment *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Peter John Skibitski *Alembic Global Advisors - Research Analyst*

Robert James Labick *CJS Securities, Inc. - President & Director of Research*

Robert Michael Spingarn *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to BWX Technology, Inc.'s Fourth Quarter Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the call over to our host, Mr. Mark Kratz, BWXT's Director of Investor Relations. Mr. Kratz, please go ahead.

Mark A. Kratz - *BWX Technologies, Inc. - Director of IR*

Good morning, and thank you for joining BWXT's fourth quarter 2019 earnings call. Joining me today are Rex Geveden, President and Chief Executive Officer; and David Black, Senior Vice President and Chief Financial Officer.

On today's call, we will discuss certain matters that constitute forward-looking statements and involve risks and uncertainties, including those described in the safe harbor provision found in yesterday's earnings release and BWXT SEC filings. We will also provide non-GAAP financial measures, which are reconciled to GAAP measures in the quarterly materials. Copies of these documents along with today's earnings presentation are available on the Investors section of our website.

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

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Thank you, Mark, and good morning to everyone. I want to open my remarks today by expressing gratitude to the entire BWXT team for successful and, more importantly, safe 2019. We had a record year for safe operations, and the hard work and dedication to the BWXT mission and core values was evident in 2019 results. The attention to detail and enduring commitment to deliver the highest quality products and solutions continue to enable the success of the company as we move into the new decade.

Yesterday, we reported strong fourth quarter results with non-GAAP earnings of $0.71 per share on revenue growth of 5%. These results capped off an exceptional year for BWXT, culminating in annual revenue growth of 5% to a record-setting $1.9 billion, with earnings up 10% to $2.62 per share as we outperformed against our revised earnings guidance for the year.

Fourth quarter performance was anchored by strong execution in the Navy franchise as the segment exhibited continued growth and delivered solid margins. As we anticipated, with the multiyear agreement we discussed on the last call, NOG received a $1 billion contract for nuclear propulsion equipment on the next Ford class carrier, resulting in approximately $4 billion in cumulative contracts for the year. The commercial Nuclear Power business continues to be strong through the CANDU refurbishment cycle and delivered strong operating margins as we closed out 2019. The business was also edified by the acquisition of Laker Energy Products in early January. Although small, this acquisition will provide BWXT with complementary products, a larger global customer base and incremental opportunities to expand share in this favorable nuclear power market moving forward.

Additionally, the services segment delivered solid results in the fourth quarter, lighter than we would have liked, but still good results given the pace of awards during 2019. Unfortunately, we were not awarded the Hanford Central Plateau Cleanup Contract, which is under protest by another company. However, last week, the DOE published a notice of intent to extend our Portsmouth D&D contract, and we anticipate the pace of awards to pick back up as we look to future opportunities in the robust DOE pipeline, for which we can provide unique nuclear solutions.

Let me give you an update on the landscape of the business and the progress we are making on strategic priorities before turning the call over to David to discuss detailed financial results. The Nuclear Operations Group ended the year with record backlog of $4.5 billion, driven by the successful awards of the aforementioned contracts. We are in the midst of kicking off our new -- our next multiyear pricing agreement, which we anticipate to encompass 2 years, and we expect to complete those negotiations around the end of 2020.

A couple of weeks ago, the President released the government fiscal year '21 budget request, and the Navy is revisiting its 4-structure assessment, which is due to be published in the near future. Overall, we feel that the nuclear propulsion programs are generally insulated from annual budgetary pressures and remain among the Navy's top acquisition priorities. However, the President's request included a late change in which the Navy would procure only 1 Virginia class submarine in 2021. While we don't anticipate an immediate impact from this scenario, we are working with our customer to understand any longer-term consequence of this possible acquisition change. Over the long-term planning horizon, we continue to contemplate a procurement cadence of 2 Virginia class nuclear propulsion ship sets per year, the planned buildup of the Columbia Class submarine and Ford class carrier orders on a 5-year cadence. So the Navy franchise continues to remain on an overall positive trajectory.

Outside of nuclear propulsion, we continue to look for ways to supplement the nuclear operations group with other opportunities. Earlier this month, we announced a small contract from the NNSA to decommission and refurbish portions of our Lynchburg facility for future production of uranium molybdenum or UMoly, high assay, low enriched uranium. In the future, this will be a critical capability to lower proliferation risk and convert U.S. research reactors from high enriched uranium fuel.

We also continue to move forward on the restart of our TRISO fuel line, efforts are progressing ahead of schedule, and our technicians are now producing uranium solutions and forming TRISO fuel kernels. We anticipate future contracts for consistent production runs, supporting BWXT's efforts to supply this unique fuel for emerging customer demands and defense and space applications.

Lastly, progress on missile tubes continues, albeit slower and more tedious than originally perceived. About 80% of the repair wells are now complete or in process. The balance of missile tube work is scheduled to roll off in 2021, with our 2018 reserves remaining adequate to cover these costs.

In the commercial Nuclear Power business, we are seeing signs of stabilizing revenue as we enter the middle of the refurbishment cycle, particularly as it relates to large component manufacturing, which runs ahead of refurbishment outages. Our 2019 revenues were split about 50-50 between refurbishment activity and normal recurring activity. The acquisition of Laker Energy Products will give us some near-term inorganic growth along with a broader product portfolio to seek incremental opportunities in the refurbishment cycle.

In Nuclear Services, our pipeline of opportunities over the next several years remains strong. As you know, the 2 Hanford contracts that were awarded in 2019 are under protest, further delaying anticipated award of the Hanford tank closure contract. We believe this will be resolved in the coming quarter and anticipate a successful award of the tank's contract in late spring, with work starting about 90 days thereafter. Beyond Hanford, the services team continues to evaluate other opportunities which we have outlined in our investor briefing. Near-term opportunities include the rebid of the Savannah River liquid waste contract that is expected to be awarded around the end of 2020. Idaho and the Savannah River M&O contract awards are expected to be 2021 events, and we have line of sight to opportunities beyond that.

In the medical radioisotopes business, we saw some incremental growth with the introduction of 2 products late last year, and we expect this trend to continue into 2020. We are also making progress on moly-99 commercialization efforts, while also addressing some schedule challenges.

As noted in the press release this morning, we demonstrated the labeling of cold kits utilizing BWXT's proprietary moly-99 production process and the business' proprietary technetium-99m generator. We successfully labeled all the cold kits that we tested, including 9 of the most widely used kits in the North American market, representing in excess of 90% of the procedures used today. These results were demonstrated with third-party participants showing that the BWXT technology will work as a drop-in replacement for existing generators on the market today.

The multifaceted commercialization efforts continue to make solid but slower progress than anticipated. The moly target manufacturing facility is now complete and all long lead items for radiochemistry and radiopharmaceutical lines are under contract. We also completed a significant milestone with the successful functional acceptance test of the first moly-99 hot sale, which we expect to receive at the Kanata facility next month. However, our progress has also come with some schedule challenges, the team is working through some scheduled delays. We mentioned in the past that we had optionality around irradiation services in order to mitigate against regulatory time lines. In that regard, we announced a second irradiation agreement with the Missouri University Research Reactor this morning. We plan to utilize MURR to augment irradiation services as required, enabling us to run hot material through the radio chemistry and radiopharmacy facilities for testing, validation and development of the new production line. Due to these delays, we are rebaselining the program schedule and expect to provide investors with an update as we work through the risks and approaches and detailed plans crystallize. But I do want to emphasize that the success of the technology has been demonstrated and we remain focused on the final steps to industrialize and automate the product line.

Lastly, we recently had the pleasure of hosting NASA Administrator, Jim Bridenstine; and the President's Science Adviser, Dr. Kelvin Droegemeier, at BWXT facilities in Lynchburg. We provided an update on our naval reactors business, the NASA Nuclear Thermal Propulsion program, our research activities in additive manufacturing and our advanced nuclear fuel manufacturing lines. Our guests all commented that they were impressed by the magnitude and importance of the work we do and the exceptional quality of our people. NASA Administrator, Bridenstine, stated that the path to Mars very likely goes through Lynchburg. This visit exemplifies the importance of advanced nuclear solutions, and we believe that BWXT is uniquely positioned to meet the growing demand for nuclear power applications to address some of the most significant challenges in national security and space exploration.

As we exit 2019, we believe the company is well positioned for growth heading into the new decade. Our capital investments for organic growth are already bearing fruit in the Navy franchise, and we anticipate that 2020 will be a peak for total company CapEx as we expand our capacity in NOG and lay the major groundwork for the moly-99 product line. Similar to the initial outlook we provided last quarter, we expect 2020 revenue growth of about 8% and earnings of about $2.80 per share, driven by continued strength in the Navy business and new wins in nuclear services.

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

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Thanks, Rex, and good morning. Starting with segment results on Slides 4 and 5 of our earnings presentation. Nuclear Operations Group delivered another strong quarter with revenue up 6% to $371 million. We witnessed continued growth from Colombia through higher production volume and higher long lead material purchases, partially offset by lower down blending. For the full year 2019, NOG revenue grew 8% to $1.43 billion, outperforming our previous guidance. 2019 revenue growth was primarily driven by the lead chipset for Columbia nuclear propulsion equipment and long lead material. NOG operating income for the quarter was $72 million, resulting in a 19.4% operating margin. This was down versus fourth quarter 2018 in which we had more significant EAC changes to backlog contracts. For the full year 2019, NOG produced $298 million of operating income, resulting in a 20.9% operating margin. Segment operating margins for 2019 were higher than 2018, driven by the absence of missile tube charges and some onetime EAC changes to backlog contracts that provided an incremental margin in the third quarter that we do not anticipate to occur annually going forward.

The Nuclear Power Group produced $97 million of revenue in the fourth quarter, a 1% decrease when compared with the fourth quarter last year, primarily driven by lower field service activities that we anticipated. 2019 segment revenue was $353 million and represents a 4% decline versus 2018. This decrease was more than we anticipated as higher component manufacturing volume was more than offset by the slowdown in field service activity and the completion of the China steam generator project.

NPG fourth quarter non-GAAP operating income was robust at $19.7 million, resulting in a non-GAAP operating margin of 20%. This increase was primarily due to a favorable $5 million change in an asset retirement obligation and higher component volume, partially offset by lower field service activity in the absence of the China steam generator project. Full year 2019 non-GAAP operating income was $56.4 million, resulting in an operating margin of 16%. This was also up versus 14.3% margin last year, primarily from the asset retirement obligation and a full year of medical isotopes that's partially offset by lower field service activity and the completion of China steam generator project.

And lastly, the Nuclear Services Group contributed non-GAAP operating income of $8.2 million in the fourth quarter, down about $1 million versus the prior year period as a result of lower costs that were more than offset by lower contract income from other projects. Full year 2019 non-GAAP operating income was lower than we anticipated at $17.1 million, as the pace of new awards slowed during the year. 2019 results were lower than last year, driven by better performance on contracts that was more than offset by higher bid and proposal activity and contract completions.

Moving now to company results on Slide 6. As Rex mentioned, fourth quarter non-GAAP EPS remained strong at $0.71. This was down $0.03 when compared with the fourth quarter last year as a result of higher NOG margins in 4Q '18 from onetime items, partially offset by higher NPG margins, a lower non-GAAP tax rate and lower share count.

Our 2018 to 2019 EPS bridge is on Page 7 of our earnings presentation. 2019 EPS came in at a record $2.62, higher than our previous guidance and 10% higher than last year as a result of increased volume and margins in NOG, better MPG margins and lower tax rate and shares outstanding.

These positives were partially offset by lower pension income and higher R&D and interest expense.

Fourth quarter capital expenditures were $59 million, resulting in full year capital expenditures of $182 million, up 67% compared with 2018. We also continue to return capital to shareholders in the fourth quarter through $16 million in dividend payments. For the full year, we returned over $85 million in cash to shareholders, including $20 million in share repurchases and $65 million in dividends. The Board of Directors recently increased the quarterly dividend payment by 12% to $0.19 per share and declared a dividend payable in the first quarter of 2020. As typical with the fourth quarter, operating cash generation was strong at $188 million, up about $10 million versus the prior year period. Cash and short-term investments, net of restricted cash had a $92.4 million balance at the end of the year. Gross debt totaled $832 million at the end of 2019, with $272 million of remaining availability under the existing credit facility. The company's net debt-to-EBITDA ratio was at a comfortable range, just below 2x.

Turning now to 2020 guidance on Slide 8. We are updating our guidance relative to the outperformance in 2019. We expect consolidated revenue to be up about 8% versus the $1.9 billion last year and EPS of about $2.80 million, up nearly 7% from the $2.62 we delivered in 2019. In 2019, we experienced some timing push out related to our capital expenditures, and therefore, we are guiding to a peak year for total company CapEx of approximately $270 million in 2020, with a return to maintenance CapEx levels by 2022.

Moving to operating segment guidance. We still expect nuclear operations revenue to be up about 9% despite achieving higher-than-expected growth in 2018. Core segment operating margins are expected to remain in the high teens with upside from CAS pension reimbursements. However, I want to remind you that we expect our reported margins to be slightly lower than 2019 results as the onetime benefits to backlog contracts that occurred in the third quarter last year, are not expected to repeat at the same level.

In the Nuclear Power Group, we anticipate revenue growth to be about 5%, benefiting from growth in medical radioisotopes and the small acquisition of Laker Energy Products. Segment margins are expected to return to normal levels of about 13%, as we will now have the benefit of EAC adjustments related to the completion of the China steam generator project that we received in 2019. Lastly, we anticipate Nuclear Services operating income of about $25 million in 2020. Our guidance contemplates a successful award of the Hanford tank closeout contract and an anticipated start in the summer of this year.

Other information related to guidance is as follows: other segment operating expense, primarily for R&D is expected to remain at about 1% of revenue. Corporate unallocated costs are anticipated to be approximately $20 million. Due to good asset performance and interest rates in 2019, we expect other income, primarily related to pension and other post-employment benefit plans of about $37 million. We anticipate an effective tax rate of 23%. Our share count is expected to remain flat at about 96 million shares, and depreciation and amortization expense is expected to be approximately $70 million.

On Slide 9, we provided an EPS guidance bridge. Operations are anticipated to contribute about $0.13 to EPS with higher volume, partially offset by the headwinds from 2019 nonrecurring items in NOG and NPG and increased depreciation expense. We also expect about $0.09 of accretion from higher FAS pension income and other items, and an offsetting $0.04 of dilution from higher interest expense and a higher effective tax rate.

Finally, on Slide 10, we continue to reiterate our long-term non-GAAP EPS guidance of a low double-digit EPS CAGR over the 3- to 5-year period from 2017 results.

And with that, I'll ask the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from Bob Labick with CJS Securities.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

I wanted to start, it's kind of a broad question with 2 specifics at the end, but I just want to give a little context. Given that you've reiterated your long-term guidance, which is essentially for 2022, is the low double digits growth for 2022. It certainly implies an acceleration in earnings in '21 and '22 or somewhere in that time frame. And can you tell us, based on the information you gave us today, about the President's budget request for 1 Virginia class in '21? And then also pushing out the moly-99 project, although you didn't specify the time period, how those play into still having confidence in accelerating earnings growth in '21 and '22 time frame?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, sure. Thank you, Bob. Maybe I'll give you a little color on that. We -- so a long way to go on getting from a President's budget request to an appropriate program. So that's not really factoring into our analysis at this juncture, although we're extremely, extremely vigilant on that one. If that Virginia turns out -- if that Virginia procurement turns into 1 for 2021, and coupled with some other delays, it certainly puts pressure on our 3- to 5-year scenario. But we'll -- we'd have to go and evaluate exactly where we are, if those 2 things happen. However, there's a lot of other content in our strategy that can help to overcome some of those kind of problems. For example, growth in the NSG business, growth in the NPG business. And so it'd certainly be a heavier lift if those 2 things unfolded that way. But we have opportunities to grow.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Okay. Great. And is it relates to the moly-99 isotope?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Right. So the -- if you look at the isotope portfolio that we have, we have 2 new products that I mentioned in the script here, that 1 of which -- that were introduced at the end of last year, Indium oxine's growing, Germanium-68 is another one that's growing. So we see pretty robust organic growth in that portfolio as it is and then moly is, of course, an adder to that and then out-year things beyond that.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Okay. And then just as it relates to the moly, can you talk a little bit more about what the projects delays are? And then forgive me for not knowing the whole kind of FDA submission time line and everything, but working with MURR, can you submit from MURR since you've successfully demonstrated the cold kit labeling already? Or can you kind of tie all of that in? What's the delays, can you shift to MURR? And if there's a basic time frame, is it quarters or years in terms of the delays? And help us kind of sense around that.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. So the shift to MURR is not a shift. I mean, we're still on track to work with Ontario Power Generation for sort of, let's call it the baseline program. But shifting to MURR, what that does is reduces some regulatory risk and enables us to start irradiating material on an earlier time frame in a much simpler way. So it's -- think of that as kind of a hedge against any regulatory delays related to using the system at -- the target delivery system at OPG, and that's good for us.

In terms of delays, so let me just sort of lay out what the programmatic structure is. We really have 3 principal systems that are involved in the moly production here. One is the target delivery system. That's the system that delivers the moly into the reactor at OPG. The second one is called the radio chemistry line. That's located at our facility in Kanata, outside of Ottawa, and that's where we take the irradiated material and do some radio chemistry on it through a series of hot sales. And then there's a thing called the radiopharmacy line. This is where we take the product that comes out of the radio chemistry line and then we dose it into a generator, which is the standard product that the market accepts, the technetium-99 generator that's a shielded -- that's shielded vessel that would contain the moly-99, which is the [king in the] technetium. All of those systems have their degrees of complexity. I would say that the target delivery system is the most mature, followed by radio chem, followed by radiopharm. The radiopharmacy system is -- has a number of hot sales and a high degree of automation to it. And that's the most challenging part of it, the product -- the component deliveries related to the radiopharmacy. So I'd call that the critical path on the program. As we think about schedule delays, they're not insignificant. And I think maybe a good way to think about it is they're probably -- think of it as delays measured in quarters, certainly not in days or weeks or anything like that. We have to -- and where we are is we need to -- as you -- and when you get into problems like this, of course, what you do is you charge the team with go and finding ways to improve the schedule, and they'll find creative ways to do that, too. So we're going to let the team do its work, and then let investors know where we are as soon as we've got clarity on that.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Got it. And are you still -- just final one for me, and I'll jump back in. I appreciate this. In terms of the 2022 or the long-term guidance, are you still anticipating having sales of moly and tech generators in that 2022?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

I won't speculate on that yet. We need to get through our analysis.

Operator

The next question comes from Robert Spingarn with Crédit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

David, I was going to see if you could give us a little bit more color in terms of growth and margin cadence for NPG and NOG as we go through 2020?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

So what we said was that our margins inside of NOG will be consistent with what they've been in the past. It will be the high teens with room for improvement for the pension reimbursements as we go. So we don't anticipate that, that will change. So if you look at NPG, the margins have been a little higher. And remember, we had the China steam generator project. And in this past year, we had an asset retirement obligation we valued for you, but there were some things inside there that caused some margins to be higher than normal. So what we've said is that those margins are going to go back to a more sustainable 13% margin inside of NPG for the year. So that's what we've provided.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then if we could just go back to the lower growth in NPG for the year, I think you said that's because of -- it has to do with the comps. And I want to just clarify what happened last year in NPG, what's happening -- bridge MPG from '19 to '20? And the 5% growth?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

What we continue to see is we continue to see changes in the services and the outages business, that we started to report on the number of, I think, last year. We're in a refurbishment cycle for NPG. And I think last year, we saw some of those refurbishments take place at some of those outages we anticipated. Now we're also seeing some of those outages shift out in time. So those outages are causing some changes to the revenues as we go forward.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

I see. And then just lastly, can you remind us how your CAS recoveries and ERISA contributions trend over the next several years, particularly for '22 since we're building out that year for all of the companies in the sector?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Yes. Right -- I mean, right now, what we're saying is that we continue to show strong reimbursements in our CAS recoverable amounts for '19. It was roughly -- the CAS costs were roughly $50 million, and those will continue for the next 3 years. And after that, they will fall off.

Operator

The next question comes from Peter Arment with Baird.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

David, just to follow-up on the kind of another question on the CapEx profile you mentioned. So the step-up this year, was that just -- that's -- some of that sounds like it's very much timing-related, was there anything incremental in that $270 million?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Now remember, we had talked about capital being roughly $225 million, $225 million. And then the last quarter, last year, we pushed it to $240 million this year because of timing. And now the way the timing worked out for the year, we're now up to $270 million. If you look at the $225 million, we only spent $185 million last year. So there's about a $40 million play that has then pushed into this year to get you up to $270 million.

So mainly, the capital expenditures is all timing-related, causing us to spend the peak, not increased at this point in time.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. Understood. And then your maintenance CapEx level, I believe, was still 3% to 3.5% of sales, is that still valid for 2022?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Yes. So for 2022, we feel we'll be back to the 3%, 3.5% of revenue.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And how much does it do -- you didn't mention 2021, which, obviously, we're all trying to model? What's your anticipation, how that comes down?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Once again, we're re-baselining our moly schedule in the project. So I think some of that will tighten up on what capital we're going to need for 2021. So it's somewhere in between where we are today. And our maintenance capital, we just haven't defined 2021 yet. It will be higher than -- definitely higher than our maintenance capital.

And remember, we had been saying, for the first 6 months, it will be a very high level. So some of that might now slip full year, that's why we're saying maintenance capital is starting in 2022.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And just -- Rex, just a quick one, following back on kind of the MURR questions around the -- bringing the -- so is this -- you view this as kind of more of a derisking of the overall strategy, just from -- or was it just pushback from the regulators?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Oh, no, no. It wasn't pushed back from the regulators at all. It was really just a way to hedge against the regulatory time line. It's easy to get in and out of MURR. And the way we have that one arranged, doesn't require an exotic target delivery system. You just have to be able to put your material into a fixture. So it's a simple way for us to be able to run hot chemistry through our facilities up in Kanata, albeit at lower volumes, but -- and it's also a good way for us to ramp production, frankly. So it's a nice hedge.

Operator

The next question comes from Matt Akers with Barclays.

Matthew Carl Akers - *Barclays Bank PLC, Research Division - Research Analyst*

So a follow-up on the CapEx questions. I guess, how much of that shift -- I might have missed this, but how much of that shifts out is sort of NOG versus isotopes? And I guess as you work through kind of finalizing the latest schedule on isotopes, is there chance that the CapEx on the isotype side could shift? Or have you -- do you think you've sort of derisked that in your forecast for this year?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

So we haven't defined how much of 2019 going into 2020 is NOG versus isotope. We have -- inside of our investor presentation for 2020 have said that there's about $140 million of NOG of the $270 million is -- $140 million of the capital is NOG and $110 million of it's NPG, where the isotopes reside. But we haven't said specifically of the shift, which is which. And as I stated, as we go into '21, '21 was also supposed to be an elevated year. Towards the end of the year, we would have got to maintenance Capex. We're saying maintenance CapEx is 2022. But we haven't really defined whose capital is '21 either for the future, but it will be at an elevated level. I would say that from 2020, it will be at that level or lower, but it's still an elevated level in '21.

Matthew Carl Akers - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Got it. And then I guess, just on the Virginia class cut to 1 in the budget, obviously, a lot of negotiations before we get to the finalized budget. But if -- worst case, if we really did get 1 Virginia class, when would that sort of impact your numbers?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

It starts to impact us in the government fiscal year. I mean if you imagine that all the appropriations got done on time, and the President signed off on the budget before the fiscal year began, I mean, theoretically in Q4 of this year, it would start to taper in, but in a minor way. The more significant impact starts, and for us, calendar year '21, and then starts to peak out later, 2, 3 years later than that because of the way the funding wedge goes on those nuclear ship sets.

Operator

The next question comes from Michael Ciarmoli with SunTrust.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Maybe, Rex, just to stay on that Virginia class. What would happen regarding your capacity and your CapEx planning? And just on that timing impact, why would 4Q not potentially be in the realm of possibilities, just given that I know it's the President's budget, but we already had a -- basically a 2-year deal signed off to eliminate sequester. And I thought that would have provided a lot more clarity to get a budget in place, potentially, maybe not October 1, but sooner than prior years.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. So maybe on the first one, Michael, on -- in terms of CapEx and capacity, it doesn't really change that picture in any appreciable way. Because we would expect -- even if that occurs, we would expect the 2 Virginia tempo going forward. And when you think about, as we've sort of laid out the math on this in the past, 12 Virginias at some state of completion going through the shop at any point in time. A handful of Columbias as we get into the future. And at any point in time between 2 and 4 Ford class ship sets going through the factories at any one time. A Virginia on the margin doesn't really change our production capacity picture or our capital picture because we're having to build out to be able to accommodate Colombia and the continued 2 Virginia tempo as it is. And so we're kind of running at full capacity, I guess, is the way that I would put it. So 1 Virginia doesn't change that much for us. So I wouldn't imagine that we would change our capital spending based on the possibility that 1 Virginia scenario occurs in that 1 year.

In terms of whether or not we can get a budget deal, I'm just looking at history, right? We never get a budget deal before October. And that's certainly in an election year, I cannot imagine a budget deal before the election being signed off by the President.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Okay. And then just back to the Virginia, not running at full capacity, should we think about overhead absorption, maybe just some underutilization? Or is it just kind of on the margin, just not having -- just kind of given everything else you just said with Columbias and Fords and what have you.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. I mean, it has an impact, of course, in all of those things on the margins, but certainly something we would manage if it occurs.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Okay. And then just to the comments on moly, I mean, you previously had said commercialization-ready for 1Q '21. But considering you said this is more quarters, not days, in terms of level setting our expectations, I mean, it seems like late '21, is this still a calendar '21 revenue-generating product line? Or just how should we think about timing now?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, just to -- Michael, just didn't want to put any color on that until we let the team do their work. Maybe the way I would say -- the way I would think about the program is we've absolutely addressed any questions around the technological viability with all this cold tagging. We've got critics out in the marketplace, they've been saying, "Oh, well, the material is not going to have enough activity. The physics doesn't work. If you make it, it's never going to tag to a cold kit", and a bunch of nonsense like that. And so we've certainly answered the question on whether or not the product is viable and whether it's a drop-in replacement. So from the standpoint of technological maturity, technological risk, that's retired. And I think we feel -- sitting here today, feel more optimistic about this program than we ever have. And the other thing is we can see the finish line, right? We've got all these large components under contract with vendors. And we're just getting through that nittu gritty detail about the final -- taking the product specifications converting into drawings, converting into hardware and modifying our facility up in Kanata. So we're right in the heat of it. So we do have these delays, but -- and I'm just not prepared to characterize it any further than that right now. I just want to let the team do their work before we start speculating again about the readiness state.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Got it. And then just one housekeeping. I think you guys called out, I jumped on a little bit late, but the down blending was going to be a bit lower. What was the driver behind that?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Oh, the Q4 down blending numbers, you mean?

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Yes, sorry. Yes, yes, sorry. Yes.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, it was nothing...

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Timing.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

And that was just timing in the program. Nothing big there.

Operator

The next question comes from Pete Skibitski with Alembic Global.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Apologies for the noise, I'm at the airport. But Rex, I was wondering if you could talk about small nuclear reactor opportunities. I was kind of shocked by the magnitude of the budget increase at NASA, and you mentioned their visits and then I think there's a lot of -- there's a lot out there, I think, on both moon and Mars reactor opportunities and all the DoD work. And I guess I was wondering, at this point, if there's anything meaningful in your 2020 guidance for small reactors and maybe if we're at the point where you can maybe quantify kind of the opportunity set there?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. Sure, Pete. Thank you for the question. I've said on this call, and certainly continue to say internally at BWXT that we have an interesting opportunity to replicate our franchise Navy platform and other markets, such as space and other national security applications. And I think it's pretty exciting.

Having said that, it will take a while for any of that to develop. In terms of what we saw out of the President's budget request, it was pretty encouraging to me. The NASA top line went up 12%. Contained within that was a nuclear technology line, if you will, and that's for both power and propulsion -- nuclear power and propulsion. And that budget line for '21 is $100 million. And then over the 5-year horizon, it goes all the way up to $257 million. I haven't integrated those numbers, but, call it, $0.5 billion-ish or better over that 5-year period. Of course, just as I said on the Virginia, this is -- these are early days. And the authorizers and appropriators in the conferences will do what they do with that. But it does indicate, certainly coming out of the White House, strong interest in nuclear solutions for surface power and for propulsion. And then similarly, there's an interesting budget line in the DoD part of the President's budget request within DARPA for a program that's called Reactor on a Rocket, and that one's funded in the $20 million range in 2021. And so we're seeing it occur in various places. What we -- I would say that what we're seeing are dollars that would go towards technology development and ultimately towards demonstration missions. So there's nothing in that 5-year time frame and shouldn't be for, let's call it, production-type programs where we're building multiple units.

So in terms of characterizing the opportunity for BWXT, I think it's something that's in the range of tens of millions over the next few years, maybe rising into the hundreds of millions if we got deeply involved in a demonstration mission with either NASA or DARPA or someone else. So the seeds are being planted, and we're starting to see some of these green shoots of growth around it, and I'm optimistic, but it's definitely -- we're playing the long game on that one here.

Operator

The last question is a follow-up from Matt Akers with Barclays.

Matthew Carl Akers - *Barclays Bank PLC, Research Division - Research Analyst*

Could you comment a little bit on EACs and, I guess, particular nuclear operations, are there any sort of big milestones we hit this coming year that maybe could support EACs.

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

No, I mean, we get -- our estimate at completion changes every year. So I mean, we take those improvements to the contracts, depending on when they come inside of NOG and we've always said that from quarter-to-quarter from year-over-year to year-over-year, it's difficult because those improvements could come in Q1 this year, they could come in Q3 next year. Once you take those improvements, then you run it through EACs, you run it through percentages of completion and then you take those improvements to your backlog contracts. So that continually happens for us. Now every once in a while, there is an adjustment or something in EACs that's little abnormal, and we'll call those out. But usually, all EACs are normal things for our business as we go through the year.

Operator

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

Mark A. Kratz - *BWX Technologies, Inc. - Director of IR*

Yes. Thank you, and thanks for joining us this morning. This concludes our fourth quarter 2019 conference call. 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.
