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BWX Technologies, Inc. (BWXT)

Q3 2025 Earnings Call

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OTHER PARTICIPANTS

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Peter J. Arment

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the BWX Technologies Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen only mode. Following the company's prepared remarks, we will conduct a question and answer session and instructions will be given at that time.

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

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you. Good evening and welcome to today's call. Joining me are Rex Geveden, President and CEO; and Mike Fitzgerald, Senior Vice President and CFO. On today's call, we will reference the third quarter 2025 earnings presentation that is available on the Investors' section of the BWXT website. We will also discuss certain matters that constitute forward-looking statements. These statements involve risks and uncertainties, including those described in the Safe Harbor provision found in the investor materials in the company's SEC filings. We will frequently discuss non-GAAP financial measures, which are reconciled to GAAP measures in the appendix of the earnings presentation that can be found on the Investors' section of the BWXT website.

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

Rex D. Geveden

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

Thank you, Chase, and good evening to all of you. I'm excited to report another strong quarter for BWXT showcasing the effectiveness of our battle plan strategy and our leading position in nuclear solutions for the global security, clean energy and medical end markets, all of which are enjoying unprecedented demand. Third quarter financial results exceeded our expectations, driven by focused execution and revenue growth in both government and commercial operations.

We delivered 12% organic revenue growth and roughly 20% adjusted EBITDA and earnings per share growth, alongside robust free cash flow generation. Book-to-bill was [ph] astound (00:02:01) 2.6 this quarter, driven by large multiyear national security contracts for the production of defense fuels and high purity depleted uranium in our special materials line of business.

This led to a total backlog of \$7.4 billion, up 23% from last quarter and up 119% year-over-year. Our year-to-date financial results, deep backlog and unprecedented end market demand position us to enter 2026 from a position of financial strength. Our preliminary 2026 outlook calls for another year of record financial results with a posture to exceed our medium-term financial targets.

Turning to segment results and market outlook. Government operations revenue was up 10% and adjusted EBITDA was up 1%, both ahead of expectations. In the naval propulsion business, our teams are intensely focused on meeting delivery commitments for submarine and aircraft carrier programs and driving operational excellence.

In addition to traditional process optimization strategies, we are finding new ways to leverage artificial intelligence and advanced manufacturing to drive efficiencies around quality control and workflow in our facilities, that will lead to improved productivity, throughput and margin performance. Technical services is on a growth trajectory powered by a win streak that unfolded over the last several years.

Our team began transition for the Strategic Petroleum Reserve M&O contract in early October, and the BWXT led joint venture, which includes Kinectrics, is in the preferred bidder period, which is the transition period for management and operations of the Canadian nuclear laboratories. We expect to assume full operational control before the end of the year.

In microreactors and advanced nuclear technologies, the market is evolving positively. We are currently manufacturing the reactor core for Pele, which is on track for delivery in 2027. Related to Pele, last month, the Army announced the Janus Program, which aims to deploy a nuclear reactor on a military installation no later than September 2028, building on the lessons learned from Project Pele.

BWXT's qualification should be a differentiator for Janus and other important national security projects that are within our cost of capital risk tolerances. During the quarter, we announced a collaboration with Kairos Power to commercially optimize TRISO nuclear fuel production. We are excited to have a partner that is aligned with Google. BWXT is currently producing TRISO fuel for Project Pele and a variety of other customers, and will continue to evaluate options to enter the commercial market on a larger scale as the demand for advanced reactors grows.

Lastly, over the last several quarters, we've pointed to our special materials business line having some of the most exciting growth opportunities within the company. I'm pleased to say two of these opportunities, both within

the NNSA materialized during the quarter. First, we were selected for the Defense Fuels contract valued at \$1.5 billion to establish a domestic uranium enrichment capability for defense purposes.

We booked the first task order in the contract and are building a centrifuge manufacturing development facility in Oak Ridge, Tennessee. Over the next several years, our focus will be on centrifuge manufacturing and designing and licensing of plants for defense uranium enrichment.

Second, we were awarded a \$1.6 billion 10-year contract to supply high purity depleted uranium to the NNSA. This is a direct result of our foray into special materials and our deliberate strategy of expanding into the depleted uranium assay through the A.O.T. acquisition. Under this contract, we will build a manufacturing plant adjacent to our existing facility in Jonesborough, Tennessee, capable of producing up to 300 metric tons of high purity depleted uranium per year that will be used for multiple defense purposes. These are both exciting long-term projects for BWXT, not only for the revenue growth, but also the demonstration of trust our customers put in BWXT to execute on mission-critical national security programs.

Turning now to commercial operations. Reported revenue grew 122% and organic revenue grew 38% year-over-year, driven by the Kinectrics acquisition, strong growth in commercial nuclear power and medical isotopes. BWXT medical revenue grew double digits, driven by PET and other diagnostic product lines for which the outlook remains favorable. We expect this trend, along with the increasing therapeutic isotope sales for clinical trials, to support continued revenue growth in 2026.

Consistent with our commentary last quarter, the Tech-99 development is progressing nicely and is on track for an FDA submittal in the near future. In the therapeutics market, Kinectrics commissioned four new electromagnetic isotope separator units that increased production capacity of Ytterbium-176, the precursor material for Lutetium-177 to over 500 grams annually. This expansion reinforces our role as a global supplier of highly enriched, stable isotopes needed for cancer radiotherapy.

Turning now to commercial power, where demand is very strong and our opportunity set is expanding across various geographies and with many of the leading reactor technology OEM providers. In the CANDU market, we have a deep backlog of heavy nuclear components supporting life extensions at Canada, including the 48 steam generators for the Pickering life extension, which are driving significant revenue growth this year.

Beyond that, BWXT and Kinectrics are tracking opportunities for international CANDU life extensions, the Canadian new builds we have discussed in the past, other large scale opportunities, including the Westinghouse AP1000 and multiple SMR projects. In the SMR sector, we are a key partner with the majority of leading technology providers in this rapidly expanding market. To this point, we recently signed a contract with Rolls-Royce to design steam generators for its SMR, along with an MoU for a manufacturing base, highlighting the power of our merchant supplier position in the market.

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

Michael T. Fitzgerald

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

Thanks, Rex, and good evening, everyone. I'll begin with total company financial highlights on slide 4 of the earnings presentation. Third quarter revenue was \$866 million, up 29%, driven by both segments. Excluding contributions from acquisitions, organic revenue was up 12%. Adjusted EBITDA was \$151 million, up 19% year-over-year, driven by robust double-digit growth in commercial operations, a modest increase in government operations, and lower corporate expense. Adjusted earnings per share were \$1 up 20%, driven by strong

operating performance. Non-operating items were neutral on a net basis. Our adjusted effective tax rate in the quarter was 23.6%, and we continue to expect a tax rate of approximately 21% for the year.

In 2026, given a greater percentage of international earnings following the Kinectrics acquisition, we expect our tax rate to be slightly higher year-over-year. Third quarter free cash flow was \$95 million, driven by solid earnings performance and timing of cash receipts for major awards. We anticipate free cash flow in 2025 to be approximately \$285 million, the high end of our previous outlook range.

Capital expenditures were \$48 million in the quarter and \$114 million year-to-date. We anticipate full year CapEx to be approximately 6% of sales, indicating an increase in the fourth quarter due to timing of spend on growth initiatives, including capacity expansion for commercial nuclear and a number of smaller projects in our government business. In 2026, we expect CapEx to remain at 5.5% to 6% of sales supportive of our longer term growth outlook.

Moving now to the segment results on slide 6. In government operations, third quarter, revenue was up 10%, driven by naval propulsion, long lead material procurement, special materials and a roughly 3% contribution from the A.O.T acquisition, partially offset by a decline in microreactor volume. Adjusted EBITDA of \$118 million was up modestly compared to last year, resulting in adjusted EBITDA margin of 19.2%. We expect government operations revenue to be up mid-single digits organically in 2025 plus just over 2% contribution from the A.O.T. acquisition slightly ahead of our previous outlook. We continue to expect adjusted EBITDA margin of approximately 20.5%.

Turning to commercial operations. Revenue was up a robust 122%, driven by contribution from the Kinectrics acquisition. Organic revenue growth was 38% driven by strong year-over-year growth in our commercial power business and double-digit growth in medical. Adjusted EBITDA in this segment was \$36 million, up 163%. This results in adjusted EBITDA margin of 14.2%, a nice improvement compared to our first half results and up from the 11.9% in the same quarter last year.

Margin expansion was driven by solid operational performance and more favorable mix compared to recent periods. We now anticipate 2025 commercial revenue to be up approximately 60% compared to last year, driven by high teens organic growth and contribution from Kinectrics, which is performing slightly ahead of our expectations since the closing of the acquisition in May. We expect segment adjusted EBITDA margin to be approximately 13.5%, the low end of our previous range due to the timing of the recovery of higher material procurement costs, which acutely impacted our results in the first half of the year.

Turning to our consolidated guidance for the remainder of 2025 and our preliminary outlook for 2026. In 2025, we anticipate adjusted EBITDA to be approximately \$570 million, the midpoint of our previous range, however, we now expect adjusted earnings per share to be \$3.75 to \$3.80, up \$0.075 at the midpoint given the benefit from non-operating items, including foreign currency gains and slightly lower interest expense.

Looking to 2026, we anticipate another year of strong financial performance with low double-digit to low teens adjusted EBITDA growth yielding high single digit to low double-digit adjusted earnings per share growth given modest non-operating headwinds. This should lead to another year of solid cash generation, although near-term working capital investments related to the significant growth in our business will likely lead to flat to slightly higher free cash flow.

In our segments, government operations revenue is expected to grow in the mid-teens, led by growth in special materials and supported by higher revenue in naval propulsion and microreactors. Of note, the Defense Fuels

Program in HPDU will account for over half of the segment's growth in 2026. This growth includes a significant amount of what is essentially customer-funded CapEx to build the unique infrastructure required for these programs, meaning they are expected to have below average margin in the first phases compared to the rest of our special materials portfolio.

As such, we anticipate government operations adjusted EBITDA to grow in the high single digit percentage range compared to 2025, ahead of our medium-term outlook for mid-single-digit growth in this segment. In commercial operations, we anticipate another year of robust revenue performance with low double-digit organic revenue growth plus contribution from Kinectrics. We anticipate adjusted EBITDA growth to outperform revenue growth driven by better margins due to the favorable mix and solid execution.

Overall, we had a strong quarter and we are well-positioned for another year of record financial results. Our backlog is robust, we have good visibility into the future and we remain focused on driving improved margin performance and cash generation in our business.

With that, I will turn it back to Rex for closing remarks.

Rex D. Geveden

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

Thanks, Mike. It is an exciting time for BWXT. The secular trends of decarbonization, electrification, and data center power demand, combined with an increasing appetite for nuclear solutions in the national security space, are meaningful tailwinds to BWXT. We are proud of our strong market position and the customer trust we have earned, built upon the expertise of our workforce, our differentiated infrastructure and credentials, and our strategic, organic and inorganic investments.

We are winning in our core businesses and expanding into new and exciting areas. During this period of exceptional growth, we are doubling down on operational excellence focus and expanding its application across the entire BWXT enterprise. We are driving further process improvements and increasing the use of industrial automation and artificial intelligence to optimize cost structure, product quality and cash generation to maintain our winning position and drive shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question and answer session. [Operator Instructions] Thank you. First question comes from the line of Pete Skibitski with Alembic Global. Your line is open.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Good evening, guys. Nice quarter. I guess for anyone, I guess, certainly on an absolute basis, this is one of the bigger revenue beats of consensus that you guys have ever had, I think. So, just wondered if you could clarify, did you book any revenue on the two new contracts in the quarter? I know it went into backlog, but did you book any actual revenue on those two new ones? And then just, kind of, the modest full year sales guidance increase implies a fourth quarter that will be down pretty sharply sequentially. So, I'm wondering if you can explain that also, I don't know if there's some conservatism or something else. I'll stop there.

Michael T. Fitzgerald

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

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Yeah. Thanks, yes Pete. So, as it relates to the new contracts, very modest contribution, so not a big driver here. One of the things I think that you're seeing a little bit and we've seen this trend this year in the second and third quarter is, the seasonality around some of our large material procurements. If you remember what we've discussed in the past is as we enter into our pricing arrangements, we ultimately will work to get some of those long lead material procurements done as quickly as possible to lock in pricing.

And so we've been working to try to do that in the second and third quarter. We were able to accomplish that a little bit earlier this quarter in comparison to when we had originally forecasted it in the fourth quarter. So, that is why you're seeing a large beat this quarter and ultimately a little bit of seasonality in the fourth quarter just as some of those material procurements has shifted to the right.

I would say outside of that, we're seeing really strong performance in the shops, and we're continuing to see them outperform both on our government ops and our commercial ops segment. And so we're very encouraged by that and highly focused on driving continued operational excellence initiatives within the factories.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Okay. Just one last one for me, maybe for Rex. Hey, Rex. On the new Janus Program. It seems like this is supposed to be kind of a co-co arrangement, which I know you guys typically don't like to actually operate reactors in the field. So, I'm wondering kind of what the approach is going to be for BWXT here, maybe it's just a simple team agreement is all that's needed. But was curious as to your thoughts on that.

Rex D. Geveden

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

A

Yeah. Hi, Pete. We certainly do intend to compete for that Janus Program, it's very interesting. The government is obviously looking at putting a number of reactors at a number of different sites. And I think they'll pick at least two contract teams for that. Yeah, we typically don't own and operate reactors, that's normally the job of the nuclear utility. So, it'll be a matter of finding the right teammates to go after that opportunity. But we'll do that and we'll go in and compete hard for it.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Okay, got it. Thanks so much, guys.

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Rex D. Geveden

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

Thank you.

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Operator: Our next question comes from the line of Robert Labick with CJS Securities. Your line is open.

Q

Hi, this is [ph] Will (00:20:24) on for Bob. With six months or so under your belt now, what are the key takeaways from the Kinectrics acquisition? What are some of the new market and revenue synergy opportunities?

Rex D. Geveden

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

Well, as I said on the call, Kinectrics is outperforming so far. In fact, I might speak more broadly and just say the two acquisitions that we did this year, the Jonesborough acquisition, A.O.T. and the Kinectrics acquisition are both outperforming. And I think frankly, we've created a lot of value there. We bought both of those businesses well within our multiples and both of them are doing quite well for us.

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For Kinectrics itself, the outperformance relates to the transmission and distribution business, which is growing very smartly right now because of – there's two things going on there. One is the aging infrastructure, requires a lot of testing, so we're doing that, and then we've got a nice business in offshore wind cable testing, particularly focused in Europe. So, we're seeing outsized growth there. The life extension programs at the Pickering plant are creating a lot of opportunities that Kinectrics is well suited for, so we're attacking that one.

And then finally, we're seeing some sizable business around licensing support to the Canadian nuclear utilities for the new build large reactor projects in that market. And I find that encouraging from multiple perspectives. Obviously for Kinectrics itself, but I think that demonstrates the seriousness of the nuclear utilities to proceed with their plans for large nuclear reactors. So, a lot of goodness in the Kinectrics business and it's a really great match for BWXT and I might add, by the way, that medical business of theirs is doing very nice and there's a lot of talent in that part of the business which has been helpful and synergistic to BWXT medical.

Q

Thank you. Just one more. With the exponential increase in the focus on energy production and security, where are the biggest and near term opportunities for BWX to participate in the growth in nuclear energy, and how are you prioritizing investment into so many opportunities?

Rex D. Geveden

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

Yeah. I'd say we have – we see demand everywhere. We see it on the commercial side of the business, we see it on the government side of the business. If you're speaking to commercial power in particular, I'd say the

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opportunities in order are kind of small modular reactors everywhere and you know that we face the market as merchant supplier and we participate on the X-300, we participate on the TerraPower Sodium reactor. We did a deal with Rolls-Royce, so we're supporting that reactor and steam generator design and ultimately manufacturing.

And the geography is Canada, US, Europe and Poland and the UK and other places. So, that one is super interesting to us. I do expect to see SMR announcements in the US in the fairly near future. I'd say the large reactor opportunity is expressing pretty strongly based on what I just said about the plans in Canada, I think they'll build at least eight CANDU derivative large reactors at [indiscernible] (00:23:40) and at the Bruce site.

And then obviously the Westinghouse announcement for \$80 billion worth of reactors in the US is, I think, quite a positive sign for the industry as it relates to capacity and the need for that. We're actively bidding on AP1000 components kind of every day. So, that's on the commercial side. Now Pete mentioned the Janus Program, which is, kind of, a quasi-commercial program because it's contractor operated facilities for US military sites. So, that one's interesting in itself. And of course, we see commercial outlets for TRISO, growth in nuclear medicine. So, it's that's everywhere.

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Thank you very much.

Rex D. Geveden

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

A

Welcome.

Operator: Next question comes from the line of Peter Arment with Baird. Your line is open.

Peter J. Arment

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

Q

Hey, good Afternoon, Rex, Mike and Chase. Nice results.

Rex D. Geveden

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

A

Thank you.

Peter J. Arment

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

Q

Rex, on the on the two large contracts that you booked in the quarter, the uranium enrichment and then the depleted uranium awards, I think Mike mentioned that there's just going to be some government funded CapEx to help stand some of that up. And but how does the revenue kind of cadence roll out when both of those programs kick off? And I guess related to that, Mike, you said it would probably initially come in at some lower margins. Just how long of a period does that last? Thanks.

Michael T. Fitzgerald

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

A

Yeah. So, for both of those contracts, they're, kind of, over an extended period of time. So, I think for HPDU we announced 10 years [indiscernible] (00:25:21) we've talked about that being a roughly 10 year to 15-year

program. We will see a little bit of frontloading as we build out, kind of, the infrastructure investments on those in the early parts of the year.

But generally speaking, they're pretty distributed over the life of the [ph] purity (00:25:38) performance. So, maybe a little bit waiting early, but certainly not significant, so it'll be relatively distributed over those 10 to 15 years, depending on the contract that you're talking about. Those contracts are structured as fixed price programs.

As you know, we typically will enter into kind of a base level margin percentage and then ultimately work to outperform those over a period of time, our special materials business has had a long history of being able to outperform. And so typically we do not make any of those, kind of, large scale adjustments from an ESG perspective until we're probably around 25% or more on the contract.

So, I would expect the, kind of, lower margin to last for the first couple of years. And then ultimately, we would be highly focused on driving improvement in that EAC and being able to recognize a higher profit.

Peter J. Arment

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

Q

Appreciate that color, Mike. And then Rex, just on Project Pele, could you just give us the latest update on how that's going because it sounds like you said delivery in 2027. I thought that was – is that later than previously planned? Just give us any more updates there. Thanks.

Rex D. Geveden

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

A

Yes, Peter. That is later than the contract originally called for. That said, the requirements for that program have been evolving, particularly [indiscernible] (00:27:01) and so it's not unexpected, the program is doing very nicely. We are assembling the reactor core down in Lynchburg, Virginia right now. And do expect to deliver that reactor and that fuel to Idaho National Laboratory in 2027, and they'll fire it up and test it out there. So, the program is doing great.

Peter J. Arment

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

Q

Thanks, guys. Nice results.

Michael T. Fitzgerald

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

A

Thanks, Peter.

Operator: Next question comes from the line of Jeffrey Campbell with Seaport. Your line is open.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

First of all, congratulations on the strong quarter. Regarding the press release, announcing the \$1.5 billion award said that the pilot plant will demonstrate LEU production for defense missions before being repurposed to produce HEU for naval propulsion applications. To be clear, will the capabilities to produce HEU be accomplished in the current appropriation or will it require additional funding?

Rex D. Geveden

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

A

So, that initial tranche of funding is about licensing, Jeff, licensing and preparation for the high-enriched uranium cascade, which ultimately will be based in our fuel services business in Erwin, Tennessee. That combined with a centrifuge manufacturing development capability that we're doing up in Oak Ridge, Tennessee. So, that actually – the first tranche of funding does not relate to the production of the material itself.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Okay. Thank you. And regarding the four new second generation electromagnetic isotope separator units that you announced being commissioned by Kinectrics, does the entirety of that 500 kilogram (sic) [grams] (00:28:52) of Ytterbium output now belong or will it belong to BWXT medical? And were there any noteworthy differences between the first and the second generation EMIS units?

Rex D. Geveden

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

A

Yeah, that's 500 grams of output, the Ytterbium-176 which of course is the base material for Lutetium-177. So, it's an important, important precursor for that nuclear medicine product. There's no essential difference between this generation and the prior generation. It's really just an increase in capacity of about 500%, by the way. So, it's an impressive capability, but we haven't integrated Kinectrics medical business into BWXT's medical business for some good reasons. But those businesses are supporting one another. And we're finding strategic synergies there that are pretty powerful.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Okay. Thank you.

Rex D. Geveden

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

A

You're welcome.

Operator: Next question comes from the line of Scott Deuschle with Deutsche Bank. Your line is open.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good evening. Mike, could you slice up the shipset value of the steam generator content in one of the Rolls-Royce?

Michael T. Fitzgerald

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

A

So, we haven't given specifics around that, I think, Scott. When we talk about the SMR opportunity with Rolls, we've discussed kind of similar to the rest of our SMR – in that \$50 million to \$100 million range, I think we're squarely in the middle of that as it relates to the Rolls content. So, we feel comfortable kind of being in that that range from a Rolls perspective. But we haven't disclosed the specifics.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then the press release announcing that one discussed the localization plan for future manufacturing work, I think most of what Rolls-Royce is currently bidding on is for reactors in Europe. So, is the implication here that you may elect to build out a manufacturing footprint in Europe if the demand is there?

Rex D. Geveden

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

A

Yeah, I think, Scott, we're evaluating that, that and other opportunities for localization. That seems to be the trend in commercial nuclear power. So, we certainly are considering it.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then last question, sorry to be a pig, but Mike, can you walk us through the puts and takes on 2026 free cash flow that result in that guide of flat to slightly up, heard some of the pieces in the script, was just curious if you could put a bow on it for us.

Michael T. Fitzgerald

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

A

Yeah. So, I think, we've seen a pretty significant step change over the last couple of years, as we mentioned in our Investor Day our kind of medium term outlook was to see continued, kind of, one day and [indiscernible] (00:31:55) cash conversion cycle days, which is the internal metric that we use. That's about a \$10 million improvement each year.

We've seen a sizable improvement going from 2023 to 2024 and then from 2024 to 2025. If you remember, we started the year at low end of the range of \$265 million, now where we're guiding to \$285 million approximately for 2025. So, part of this is driven by some of these investments in the newer contracts. We were able to negotiate some milestones on [ph] DU's (00:32:28) and HPDU that are hitting in the fourth quarter of 2025, which is good, but it creates a step function as you look into next year and just the timing of when you get to that next milestone. And so that's a little bit of what we're seeing.

In addition to that, we do have – we're going to be on a little bit higher end of the range on CapEx. We went up to 6% for this year, will be 5.5% to 6% of revenue for next year. So, you're seeing a little bit of CapEx as we continue to invest in our growth initiatives across the board. And so when you, kind of, take a look at that, you're seeing that basically we're going to end up flat based on even though we'll have a [indiscernible] (00:33:15) one day working capital improvement that's going to be offset by, call it, \$10 million to \$15 million of timing related to, kind of, milestones, payments for some of these larger new contracts.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Next question comes from the line of Jeff Grampp with Northland Securities. Your line is open.

Jeff Grampp

Analyst, Northland Securities, Inc.

Q

Evening folks, thanks for the time. I'm curious, when we look at this 2026 outlook, what do you guys view as kind of the main risks to achieving that outlook and then maybe this is more of a 2025 discussion point, but that does an extended government shutdown represent a risk at all to this year's or next year's outlook? Thanks.

Michael T. Fitzgerald

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

A

Yeah. So, I think I'll start with the second question, just on the government shutdown, and just to clarify the majority of the impact of our government shutdown is specific to our technical services part of the business within government operations where we run different joint ventures with external partners to do M&A or another environmental cleanup on [indiscernible] (00:34:25) sites. I think the teams have done a great job of managing funding. Majority of our sites are fully operational still at this point.

And we're kind of making sure that we're continuing with the mission. I would say, we have not contemplated a long-term shutdown in our guidance. And so to the extent that we're seeing extended shutdown, I don't see that as a major driver for 2025, but I would say that that would create some risk if it extended into 2026 for an extended period of time.

As far as kind of the puts and takes from next year, I would say, from an opportunity perspective, we continue to focus on operational performance and OpEx initiatives, which we discussed a lot when you look at our, kind of, guidance for next year, we are still working through some of the old pricing agreements I mentioned last quarter that we anticipated some of that to continue in through 2026.

So, to the extent that we can drive continued performance in the business and we're able to see that productivity, we could have some upside as it relates to opportunities and EAC potential write-ups, we have not assumed a substantial amount of EAC write-ups in our [indiscernible] (00:35:49) guidance. In addition to that, based on the timing of some of the new special materials contracts we've seen. Earlier this year, we had strong performance in those contracts, we'll continue to focus on performing well in that part of the business. And so that could result in ultimately some opportunities to the guidance that we've laid out.

From a risk standpoint, I would say a lot of this relates to just kind of the overall timing of our commercial nuclear opportunities. We're seeing a flurry of activity in RFP in our RFIs and we certainly have a decent visibility into when the timing of those orders are. But if you had some delays in the timing of those orders, it could have an impact or create some risk for next year. And then we always will highlight defense spending. We haven't seen a major impact on that, but that's always a potential risk. And I mentioned the extended government shutdown, that could be also a potential risk. So, those are the big puts and takes.

Jeff Grampp

Analyst, Northland Securities, Inc.

Q

Awesome. I appreciate that that thorough answer. That's really helpful. And it kind of ties into my follow-up. So Rex, you mentioned, this demand market as being unprecedented. It seems like the last couple of quarters have been more headlined, more in the government segment of the business. I'm curious how you see the commercial side playing out, the potential acceleration there. I mean, it sounds like that the pipeline is robust. And so maybe is this something that you guys think, kind of, materializes or accelerates from an order backlog standpoint over the coming quarters or do you have that level of conviction or insight at this point in the cycle?

Rex D. Geveden

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

A

No, I do think, Jeff, that we'll see orders start to accelerate. I think, obviously, the Westinghouse announcement was maybe the first domino to fall. If you look at small modular reactors, OPG seems committed to building out those for – we'll see what the next announcement for SMRs is in the US, I think there should be Tennessee Valley Authority or another nuclear utility. There's a lot of chatter about that.

I do fully expect the nuclear utilities in Canada go forth with the large builds pretty soon. Like I said, we have task orders, contracts [indiscernible] (00:38:05) licensing for those CANDU derivatives. And so yeah, a lot of things are falling into place, a lot of announcements, a lot of demand. And so I think next year for this business will be more about commercial orders and commercial announcements than about government orders and announcements which characterize 2025.

Jeff Grampp

Analyst, Northland Securities, Inc.

Q

Got it. Great. Thank you guys for the time. Appreciate it.

Rex D. Geveden

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

A

Welcome.

Operator: Your next question comes from the line of Michael Ciarmoli with Truist Securities. Your line is open.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Hey, evening, guys. Thanks for taking the questions. Maybe Rex not to derail things, but maybe talk more about the – I guess, the boring portion of your business. No one's asked about Navy subs, shipbuilding and just kind of general thoughts. Mike, I heard you talk about the CapEx. I think we still have a commitment to AUKUS out there, but any kind of general update on kind of what you're seeing in terms of BA Columbia cadence, how you're thinking about whether or not AUKUS flows in at some point, do you need more CapEx or more capacity.

Michael T. Fitzgerald

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

A

Yeah. Thanks for the question, Mike. I think it's taken quite a positive turn here in the last quarter, our boring business of naval nuclear propulsion. AUKUS had been in question because it's being examined by the Department of Defense. But you saw the, sort of, love fest between the Australian Prime Minister and the President. It looks like AUKUS is absolutely going forward now.

We're also seeing – at the same time, we're seeing positive things at shipyards at both GD and HII, seem to be turning the corner on production and I think that's quite a positive for all of us. And then, of course, there's that announcement, that surprise announcement about South Korea and the idea that the South Koreans have built a shipyard for nuclear-powered submarines in the US. Now that thing is not well formed from my perspective, but we don't know what that looks like yet. But to the extent that the US is involved in the nuclear propulsion system, that could be an interesting opportunity for us.

And so I see a lot of upside in the business relative to a couple of quarters ago. We do need more capacity to meet the demand for the AUKUS program. And we do have CapEx projects that are underway with our customer at naval reactors for that purpose. So, there's been that going on already. So, full steam ahead.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Got it. And then just one more, Mike. I think I've got this. I mean, the implied government EBITDA margins look to be down next year, it sounds like it's just a front end loading of some of that lower margin work. And maybe even some of the other pilot progression projects. But is anything changing with that that core Navy business or is it really just kind of some lower margin startup contracts that weighing on the margins?

Michael T. Fitzgerald

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

A

No, that's exactly right. If you look at 2026, most of it is mixed pressure. Half of the revenue growth is driven by [ph] DUs (00:41:27) and HPDU. And as we mentioned, we start off with a pretty low margin and then would anticipate higher positive EACs volumes in the future. I would say, in addition to that, we are still dealing with a little bit of just the burn off of the pricing arrangements that we entered into shortly before COVID, before we saw significant labor cost and those types of things.

And so as I mentioned before, that mix will start to change next year. And as we work through that and into the new pricing arrangements that we just recently entered into. So, we're hopeful that we're going to focus on that. The other thing I would just say is, we're highly focused on operational excellence initiatives and we have a large focus on margin improvement that we're going to be driving into the business and we continue to focus on that every day. So, we'll continue to make investments to drive performance in the business and hopefully we will be able to outperform and see some positive EACs next year.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Got it helpful. Thanks, guys.

Operator: Next question comes from the line of Jed Dorsheimer with William Blair. Your line is open.

Jed Dorsheimer

Analyst, William Blair & Co. LLC

Q

Hey, thanks for taking my question. And I'll echo the other sentiments. Congratulations on a great quarter here, guys. I guess just first one, if I just kind of unpack the commercial growth, I noticed that you separated out the growth from Kinectrics and specifically in your radiopharma business, that supply with Novartis looks – Pluvicto got off label from pre-chemo which expands. And so my question is, were you supply constrained in the quarter in terms of at the precursor or for the Lutetium-177? And previously you had talked about I think 30-plus Phase 3. So, I'm just wondering how we should expect radiopharma growth and whether or not that was limited [ph] by the buy (00:43:38) capacity?

Rex D. Geveden

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

A

Yeah. Hey Jed. I don't think we were supply constrained for that product. We're pretty far downstream. We do the base material, the Ytterbium-176 and Lutetium-177. We don't produce the active pharmaceutical ingredient that goes to a customer upstream, but we're not in a position of supply constraint for that product. As to how that's going to grow, I do expect Lutetium growth to continue to accelerate. I can't predict [ph] outcome (00:44:18) for our business right now, but certainly there will be higher demand in the future.

Jed Dorsheimer

Analyst, William Blair & Co. LLC

Q

Got it. And then just sticking with commercial, but switching to the reactor sides, it sounds – if you received an RFP for a Rolls SMR, for example, just as an example here or even for an AP1000, that would obviously drive the backlog, but wouldn't contribute anything to growth next year, is that correct? I just wanted to make sure that seems like that would be the case, but just wanted to confirm. In other words, 2026 is a year of RFP wins, while most of the reactor site would be Bruce and OPG up in Canada, correct?

Rex D. Geveden

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

A

Yeah, that's correct.

Michael T. Fitzgerald

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

A

Yeah, that's correct.

Rex D. Geveden

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

A

Yeah. We don't have a lot of that kind of scope in the forecast, if that's what you're asking.

Jed Dorsheimer

Analyst, William Blair & Co. LLC

Q

That was what I was asking.

Rex D. Geveden

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

A

Right, from my perspective, the growth numbers that we put out there for 2026, those kind of early targets for growth, I don't see much – I mean, I frankly don't see much risk on the revenue side because we booked so much business in naval reactors, special materials and even on the commercial side and on the medical side. So, it's a low risk outlook from the standpoint of revenue need to drive margins. But yeah, anything that we would get on the commercial side, say from the AP1000, would be additive to that.

Jed Dorsheimer

Analyst, William Blair & Co. LLC

Q

Great. Thanks, guys.

Rex D. Geveden

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

A

Thank you.

Operator: The next question comes from the line of Andre Madrid with BTIG. Your line is open.

Andre Madrid

Analyst, BTIG LLC

Q

Rex, Mike, Chase, good afternoon.

Rex D. Geveden

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

Good afternoon.

A

Andre Madrid

Analyst, BTIG LLC

Could you maybe give us a status update on DRACO? I know you said last quarter it kind of lives on through NASA, but we did see you guys call out some weaker microreactor volumes in the quarter, and I wanted to know if it was attributable to this.

Q

Rex D. Geveden

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

Yeah, that's exactly right. So, the DRACO program devolved into single agency support. It was a DARPA and NASA joint program. Now it's a NASA nuclear thermal propulsion program called SENTRI. And the funding hasn't really shaped up for that in a meaningful way yet. We do have some task orders under that contract, and we're able to keep our team together.

A

But it's a lower level of revenue and it's hard to predict what the outcome of that will be. Certainly, NASA seems to be focused on lunar efficient [indiscernible] (00:47:07) power right now, and we've assembled the team to go attack that opportunity. But nuclear thermal propulsion is still a need on the civil space and national security side. So, I do think that program goes forward in some form in the future. It's just hard to predict right now.

Andre Madrid

Analyst, BTIG LLC

Got it. No, that makes sense. And Mike, I think you called it out earlier, but on the \$80 billion nuclear partnership that was recently announced, I mean, what gains could be captured there, if any? I mean, how do we assess that opportunity for you guys, if it is an opportunity?

Q

Michael T. Fitzgerald

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

Yeah. I don't think – I mean we haven't given specific guidance on what the size of that opportunity is at this point.

A

Rex D. Geveden

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

I would just add to that, the opportunity there is for component manufacturing, which is obviously right in our sweet spot. So, could be steam generators, reactor pressure vessels, those kinds of things. And so I think the opportunity set is pretty interesting, but it's not specific yet.

A

Andre Madrid

Analyst, BTIG LLC

Got it. Super helpful. I'll leave it there. Thanks, gentlemen.

Q

Operator: Next question comes from the line of Ron Epstein with Bank of America. Your line is open.

Alexander Preston

Analyst, BofA Securities, Inc.

Q

Hi, good afternoon. This is Alex Preston on for Ron today. I was just curious on M&A, right. Obviously talked through a couple of times, A.O.T. and Kinectrics performing really well. I'm curious if you could just walk us through a little bit about the environment you're seeing. Any appetite going forward for more investments? It seems like you'll be well within your sort of 2 to 3 times leverage range going even to like the end of the year.

Rex D. Geveden

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

A

Yeah. Maybe I'll make a broad comment about that and then flip it over to Mike. We've been historically pretty picky about doing acquisition because our philosophy there is to go and get things that amplify our strategic intentions in the nuclear space and so I think that means you're necessarily limited on the number of targets.

But that said, we did a couple of really good ones this year with Kinectrics and A.O.T. and we've done some very good ones in the past. Nordion was it was a good acquisition for us, the GE Hitachi assets in Canada, a very good acquisition for us. I would say that we are interested in acquiring right now because as I said on the call or as I said in one of the answers, we certainly can get assets within our multiple. So, you've got an opportunity to create value there. So, we're continuing to look, I think it's super interesting and we'll acquire if it matches what we're trying to do strategically, otherwise we'll stay away from it.

Michael T. Fitzgerald

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

A

And I think we feel comfortable where we are from a leverage standpoint. One of my priorities is to continue to clean up some of the balance sheet and create some capacity and dry powder, be opportunistic about acquisitions going forward.

Alexander Preston

Analyst, BofA Securities, Inc.

Q

Got it. Appreciate the color. Thank you.

Operator: Next question comes from the line of Pete Skibitski with Alembic Global. Your line is open.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Yeah, just a quick housekeeping question, I guess, for Mike. Mike, the \$15 million step up in D&A in 2026, this is a small EBIT impact. But I was just wondering, is that related to the two new contracts in government or is it from Tech-99 or something completely different?

Michael T. Fitzgerald

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

A

It's not related to either or, part of this is the timing difference between when we get recovery under cost accounting standards and financial accounting standards. But no major step change as it relates to Tech-99. That won't happen until that program has gone through full approval. And then from the initial investments that we've been doing related to the new contracts, we're starting to spend that. But those are placed in service. So, you're not going to see a significant step up of that in 2026 it'll, kind of, bleed in over a period of time.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Got it. Okay. Thank you.

Q

Operator: And our next question comes from the line of Scott Deuschle with Deutsche Bank. Your line is open.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

All right. I saved this question for the end of the call, it's probably where it belongs. But Rex is rare earth handling or processing at all an area of strategic interest of the company, given your existing experience in the handling and processing of hazardous materials? Thank you.

Q

Rex D. Geveden

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

So, I don't think so, Scott. Our capabilities are around special nuclear materials and the materials handling and accountability systems that go with that. We just aren't involved with rare earths typically. I mean, apart from Ytterbium-176, but just not in our playbook. And so I would say the answer to that is broadly no.

A

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Okay. Thank you.

Q

Rex D. Geveden

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

Welcome.

A

Operator: That concludes the question and answer session. I would like to turn the call back over to Chase Jacobson for closing remarks.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you, Desaray. That's right. Thank you, everybody, for joining us today. We appreciate your questions. We appreciate your interest in BWXT. We look forward to seeing many of you and speaking with you in the coming days and weeks and seeing you at investor events. If you have any questions, please reach out to me at investors@bwxt.com. Thank you.

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

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