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BWX Technologies, Inc. (BWXT)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

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

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

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

Rex D. Geveden

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

Thank you, Chase. And good evening to all of you. This afternoon, we've reported strong third quarter results that were ahead of our expectations. We delivered 14% organic revenue growth, which combined with solid operational performance, led to 19% adjusted EBITDA growth and 24% adjusted earnings per share growth. Given our strong year-to-date performance and despite weather-related challenges stemming from Hurricane Helene and other events, we are raising our 2024 adjusted earnings per share guidance to about \$3.20, the high end of the previous guidance range, and we are maintaining our free cash flow guidance of \$225 million to \$250 million.

As we look to 2025, we expect another record year with continued growth in Government Operations, complemented by accelerating growth in Commercial Operations. Our preliminary 2025 outlook is for mid- to high-single-digit revenue, EBITDA and earnings per share growth compared to 2024 with expectations for at least 10% free cash flow growth.

Before I jump into our quarterly results and market outlook, I would like to spend a few minutes on our special materials portfolio and the acquisition of A.O.T. announced today. Special materials is a strategically important line of business for BWXT and one that I would suggest is underappreciated by some investors.

The foundation of our special materials portfolio is our Navy Fuel business in East Tennessee. Through this business line, BWXT is the only commercial enterprise in America to hold a Category 1 NRC license, which permits BWXT to handle special nuclear materials. We have leveraged this credential to develop unique infrastructure and retain some of the top radiochemistry talent in the world to execute high-value national security programs for the Department of Defense and Department of Energy.

Over the previous decade, we have built a portfolio of businesses around our Navy Fuel franchise, including the expansion of our downblending product line, growing our business in specialized nuclear fuel elements for university and government research reactors, securing a contract to convert scrap material into usable HALEU for advanced reactor fuel and standing up a new production line to purify and process uranium metal and oxides for the NNSA.

Further, over the past few months, we have announced two new important contracts that strengthen this portfolio. In September, we announced that BWXT was the sole awardee of a contract to study the buildout of a national security uranium enrichment capability. And in October, the deal we announced that BWXT was one of several companies selected to provide HALEU deconversion services that will be a linchpin in fuel fabrication for advanced nuclear reactors. Simply put, we have one of the broadest sets of capabilities in the uranium fuel processing cycle, and our customers place immense trust in BWXT to support national security missions and novel civil applications.

Building off that foundation, today, we announced the acquisition of A.O.T. from L3Harris. Based in Tennessee, A.O.T. is the former Aerojet business that is the sole manufacturer of depleted uranium and other specialty finished metals used in a variety of defense applications. From a strategic viewpoint, A.O.T. is a bullseye. It is a natural extension of our special materials portfolio and fits perfectly with BWXT's unique business characteristics, customer base and special materials handling and processing capabilities.

End users of A.O.T. products are mainly the Department of Defense and Department of Energy, including the National Nuclear Security Administration. Sales in this business are expected to be about \$40 million in 2024. And the combination of its market position, program exposure and micro-level supply and demand factors, all create good visibility into future top line growth at solid mid-teens EBITDA margins. We are targeting to close this roughly \$100 million transaction by the end of the year, and are excited to welcome A.O.T. to BWXT and to add another important product line to our unique special materials portfolio.

As you know, Robb and his team look at many M&A opportunities, but act on few as companies that meet our stringent criteria are hard to come by and often demand premium purchase multiples. With the stronger than ever corporate finance infrastructure and solid balance sheet, we remain active with M&A diligence activities to complement our organic growth with interesting inorganic opportunities to maximize our exposure to growing strategic government and commercial nuclear markets.

Turning now to a discussion of segment results and market outlook. Government Operations had a strong quarter with 17% revenue growth and 18% adjusted EBITDA growth, driven largely by outperformance in our naval propulsion and technical services businesses. In naval propulsion, our teams are keenly focused on execution as we seek to level load our plants while we work through the Ford-class aircraft carrier lull that will be with us through 2025 and maybe 2026.

In any case, I'm pleased to report that we have completed negotiations and signed a term sheet with our customer on the next multiyear pricing agreement for naval nuclear reactor components with terms that are in line with today's supply chain and labor environment. The agreement is on track for a formal contract award by the end of the year, pending final government approval of the term sheet and the contract.

In technical services, after a lengthy appeal process and being awarded the contract multiple times, the BWXT-led joint venture H2C received a notice to proceed on the 10-year plus Hanford Integrated Tank Disposition Contract in mid-October. With this transition, the Hanford Tanks Project becomes the largest contract in our technical services portfolio and punctuates our long-term strategy to convert our unmatched capabilities and nuclear operations into outsized market share for environmental remediation and management and operations of DOE in NNSA sites.

In microreactors, our current projects continue apace. Project Pele is maturing nicely and continues to receive good funding support. In fact, Idaho National Laboratory, where the reactor will be final assembled and powered, recently kicked off construction of the Pele testing facility, highlighting concrete progress on this key project. Last quarter, we discussed the Defense Innovation Unit RFP for microreactors on Army bases, an opportunity that continues to be intriguing. And beyond that, we are seeing tangible interest from other defense agencies and emergency relief organizations.

With our foundation of recurring businesses and in hand opportunities we see playing out in the near term, we anticipate modest organic growth in the Government Operations segment in 2025, consistent with the trajectory contemplated in our medium-term guidance. This will be complemented by the A.O.T. acquisition, ultimately leading to mid-single-digit revenue and EBITDA growth in 2025. Our focus remains on driving operational excellence throughout the organization and providing our customers with high-quality nuclear solutions that enable some of the government's most critical missions.

Turning now to Commercial Operations. Revenue was up modestly, driven by robust medical and commercial nuclear components growth, partially offset by lower field services activity. In commercial nuclear power, consistent with our prior view, demand is continuing to grow from traditional nuclear utilities, and now the

emergence of new customers investing directly in first of a kind nuclear to secure long-duration clean baseload power. Many of these customers are signaling a newfound appetite for nuclear, given unprecedented levels of electricity demand growth and nowhere else to turn for reliable green energy.

Over the past several months, some of the largest companies in the world, including Microsoft, Amazon and Google, have announced investments in nuclear power. These investments range from restarting decommissioned large-scale nuclear plants like Three Mile Island and Palisades, to investing in new advanced reactor technology such as SMRs. This newfound demand is evolving rapidly, and the shape is uncertain, but it is a clear indication of the growing demand and broadening public support for nuclear power.

For BWXT, our breadth of experience and capabilities around nuclear technologies that stem from decades of experience in naval propulsion and commercial nuclear power position us as a merchant supplier to the market. The foundation of our commercial nuclear power business is in large-scale CANDU reactors. However, we are also supplying SMR projects with large, complex components, including the reactor pressure vessel for the GE Hitachi BWRX-300 project in Canada and molten salt heat exchangers for TerraPower's Natrium reactor in Wyoming.

Further, BWXT has the potential to play a key role in the advanced reactor fuel supply chain by providing TRISO fuel, HALEU deconversion or other manufacturing services. We are also working with parties like the Wyoming Energy Authority and the state's mining industry to potentially build microreactors to address off-grid power needs, leveraging our experience in the Pele and DRACO prototypes.

New investment in nuclear is no doubt exciting, but I want to emphasize the strength of our existing commercial nuclear power business. Current projects, including the life extension of Ontario Power Generation's Pickering Units 5 to 8, reactor pressure vessel work on the SMR project at Darlington and heightened demand for field services to ensure the fleet can run longer and harder are all balanced that will enable BWXT to quietly deliver solid double-digit growth in 2025. In the near term, our operational focus is on building our workforce and executing on the capacity expansion of our Cambridge facility to ensure we are well positioned to capture the dynamic growth we see in this important market.

Turning to BWXT Medical, we had another good quarter. Year-to-date, growth is in line with our full year expectations of about 25%. This is driven by our base diagnostics portfolio that supports the SPECT and PET imaging markets, both of which are experiencing increased patient volumes as well as higher contract drug manufacturing volumes for TheraSphere. We expect these trends to support similar growth in 2025 for these product lines, which represent most of our medical revenues today.

Specific to our Tc-99 development program, we continue to test and perfect our product and build the commercial relationships necessary for future growth. Notably, we have successfully tagged our product with every cold kit on the market and have finalized our first supply agreement with a radiopharmacy network. FDA communications and commercialization efforts are consistent with the update we provided to you last quarter, and we continue to anticipate disciplined market entry with spot volumes in 2025 and a full annual run rate of contracted volumes in 2026 and beyond.

In therapeutics, we continue to support our customers' clinical trials with actinium-225 and are taking initiative to prepare for higher volumes, including new production modalities, to increase capacity and provide better surety of supply as these drugs move through the pipeline closer to commercialization. Similarly, our strategy for lutetium production is taking shape and we anticipate starting irradiation runs on our Darlington target delivery system next year alongside Tc-99 irradiations, making that investment more value-enhancing than our original business case.

With that, I will now turn the call over to Robb, and I will come back with closing remarks.

Robb A. LeMasters

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

Thanks, Rex. And good evening, everyone. I'll start with some total company financial highlights on slide 4 (sic) [slide 5] (00:13:46) of the earnings presentation. Third quarter revenue was \$672 million, up 14% organically, with growth in both segments. Adjusted EBITDA was \$127 million, up 19% year-over-year, driven by robust Government Operations growth, which was partially offset by lower Commercial Operations EBITDA due to project timing and the mix of revenues. Unallocated corporate EBITDA was lower compared to last year due to cost management and timing of health care costs. We continue to expect full year corporate EBITDA expense to be relatively flat compared to 2023.

Adjusted earnings per share of \$0.83 increased 24% compared to \$0.67 in the prior year quarter. As shown in the EPS bridge on slide 6, growth was largely driven by operations as slightly lower interest expense was offset by lower pension income and a slightly higher tax rate. Our adjusted effective tax rate in the quarter was 23.1% and 22.8% year-to-date. We expect our full year tax rate to be approximately 23.0%, a touch lower than our initial guidance.

I would like to tip my hat to our tax team, which has embraced our culture of operational excellence, focusing on driving continuous improvement wherever possible. They're finding small, but consequential items to generate incremental value for the shareholder, and frankly, I see more value in this area as we challenge ourselves further and come through various tax planning exercises.

Free cash flow in the quarter was a use of \$8 million as the timing of contracts impacted our working capital during the quarter. Despite that, we are reaffirming our full year free cash flow outlook of \$225 million to \$250 million.

As you likely know, East Tennessee, where our Nuclear Fuel Services facilities locate, is one of the areas that was impacted by flooding and widespread power outages caused by Hurricane Helene. This devastating weather event resulted in an over three week shutdown of our Navy Fuel processing facility and the U-metal construction project from late September through mid-October.

As such, large customer payment milestones that we have anticipated in fourth quarter 2024 may be pushed into early 2025, putting the upper half of our free cash flow guidance at risk. To be clear, these opportunities are not lost and may simply move into 2025, and we are working with our customer to see what is possible in light of this highly disruptive weather event. No matter where we land, I am proud of our team and their focus on improving working capital and free cash flow conversion, laying the groundwork for another year of at least 10% or greater free cash flow growth in 2025.

Capital expenditures in the quarter were \$40 million and \$101 million year-to-date. We continue to expect 2024 CapEx to be similar to last year's level of about \$150 million. We have begun the expansion of our large commercial nuclear component manufacturing facility located in Cambridge, Ontario. This, combined with other select growth initiatives, sets us up for similar capital spend in 2025.

Moving now to the segment results on slide 7. In Government Operations, third quarter revenue was up 17% to \$560 million, driven by increases in naval nuclear components, long lead materials, U-metal and microreactors. Adjusted EBITDA in the segment grew by 18% to \$117 million as higher revenue was complemented by solid

operational performance. EBITDA margin in this segment was 20.9% compared to 20.7% in the same quarter last year. Consistent with the view provided last quarter, we expect full year GO segment EBITDA margin to be just over 20%.

Turning to Commercial Operations. Revenue was up modestly, driven by our portfolio of BWXT Medical products and strong growth in commercial nuclear power components, fuel and fuel handling systems, which was partially offset by lower commercial field services revenue. Adjusted EBITDA in the segment was \$13.5 million compared to \$13.9 million in the same quarter last year. Solid execution was offset by revenue mix and growth investment in the commercial nuclear power and medical business lines.

Turning now to guidance for the remainder of 2024 and our preliminary outlook for 2025. We are raising our 2024 adjusted EPS guidance to about \$3.20, the high end of the guidance range we set in the beginning of the year. We are maintaining our segment-level operating assumptions, but we'll note that the summation of our revenue is likely to be just slightly higher. As such, you will notice we've raised our consolidated revenue guidance accordingly to approximately \$2.7 billion.

Moving now to our preliminary outlook for 2025, which includes a modest contribution from the A.O.T. acquisition we announced today. Overall, we expect to see another solid year that is in line with our medium-term outlook. In 2025, we expect mid- to high-single-digit revenue, EBITDA and EPS growth with at least 10% free cash flow growth compared to our 2024 guidance.

In Government Operations, we expect mid-single-digit revenue and EBITDA growth, which consists of low-single-digit organic growth, plus a marginal contribution from A.O.T. Organic growth will largely be driven by our special materials and technical services portfolios, while naval propulsion will be relatively flat as growth from increasing Columbia-class production is offset by the aircraft carrier volume lull in 2025. Government EBITDA margin is anticipated to be relatively consistent with the strong 2024 rate as revenue mix, a greater amount of early-stage programs and lower volumes of aircraft carrier work are offset with OpEx initiatives and seasoning of our much expanded workforce.

In Commercial Operations, we anticipate double-digit growth in both commercial power and medical. EBITDA growth is anticipated to outpace revenue growth as better EBITDA contribution from medical and higher commercial power revenue is partially offset by project mix and investment in our facilities and workforce to support the growth we see ahead. To sum it up, we had a robust quarter, and we are on track for a strong end to 2024 and another year of likely record earnings and cash flow in 2025.

I would like to thank all of our over 8,000 employees whose hard work and dedication helped to drive our results and position BWXT for continued success.

I will now turn it over to Rex for final remarks.

Rex D. Geveden

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

Thanks, Robb. Let me close by taking a moment to recognize our employees and their families at our Nuclear Fuel Services site in Erwin, Tennessee, who were impacted by Hurricane Helene, many of whom experienced loss of personal property and in some cases, friends and loved ones. We have and will continue to provide support for this region as it rebuilds. I'm extremely proud of how our teams navigated this extreme weather event in addition to other shorter-term power outages and flooding at several of our other sites in the Midwest throughout the summer. Our workforce at all locations demonstrated their preparedness for emergencies by

taking immediate action to ensure the safety of all employees and the safeguarding of special nuclear materials. Severe weather events like these are also a stark reminder of the impacts of climate change and the obvious need for clean, reliable baseload nuclear power.

In conclusion, despite these weather events, it is an exciting time at BWXT. Over the past several years, we have invested in our people and our infrastructure and instilled a culture of innovation and operational excellence. There are secular tailwinds supporting our key defense, clean energy and nuclear medicine markets, and there are tangible signs of accelerating demand for nuclear solutions that will lead to steady earnings, free cash flow growth for BWXT. Our focus remains on providing our customers high-quality solutions to address their most critical missions, and we will continue to invest organically and inorganically to position BWXT for ongoing success.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Pete Skibitski with Alembic Global. Please go ahead. Pete Skibitski with Alembic Global, please go ahead.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Sorry about that. Nice quarter, guys.

Rex D. Geveden

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

A

Thanks, Pete.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

I thought I would start out, we're seeing a lot of supply chain issues at the shipyards due to things like steam turbines and such for submarines and carriers, has that impacted you guys at all or is the systems guys in the Navy kind of keeping you guys level-loaded and the supply chain issues aren't impacting you guys?

Rex D. Geveden

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

A

Yeah. Pete, a couple of things I would say about that. One is you obviously know that our build schedule is a couple of years ahead of the shipyards' because of the advanced procurement and the reactor delivery times. And so, I think there's some sense in which we get maybe a couple of years early visibility into problems like supply chain and materials and wage pressure and all of that. And so, I think, by and large, we've worked our way through some of those issues in pretty – in reasonably good shape. And so, I think we feel well positioned to do what we need to do for completing our products.

In terms of the supply chain that we use, again, we've sort of worked our way through that through the periods of COVID and managed that successfully, in my view. And so, we're not seeing pressures in our supply chain in that way. And I think we feel sort of well-equipped to deliver what we need to to our customer.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Okay. That's great. And just one clarification for me. In Government this quarter, you had the strong growth, was there some materials ordering that kind of drove that? I know sometimes in the past, the outsized growth has a material aspect to it, and then maybe that was kind of pulled ahead from the fourth quarter. Could you just maybe clarify that?

Robb A. LeMasters

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

A

No, I don't think anything to particularly call out. It was the strongest growth rate we had all year. We're really hitting nice strides in advanced technologies as we have both Project Pele and DRACO coming through. We're hitting nice performance in some of the ramp-up of those immature programs just in general and kind of ramping those. So, nothing, just general good execution across the board. I would say, some of our naval sites are digesting all the labor that they've brought in and doing that nicely, both at the margin as well as the top line. So, kind of consistent drivers across the board, really.

Operator: [Operator Instructions] The next question comes from the line of Bob Labick with CJS. Please go ahead.

Peter Lukas

Analyst, CJS Securities, Inc.

Q

Yes. Hi. Good afternoon. It's Pete Lukas for Bob. You covered a lot and do appreciate that. Just a couple of broad questions. In terms of, given the renewed interest, or newfound interest as you've mentioned, in the nuclear space, can you remind us of your main competitive advantages other than experience; i.e., your licenses, your commercial capabilities, and kind of how this compares and lets you stand out from competitors?

Rex D. Geveden

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

A

Yeah. I'd say there are multiple aspects to how we're differentiated in the market. I mean, among them are, we are really the market leader in advanced nuclear fuels, coated fuels in particular that we make for the space application, and TRISO fuel which has pretty exciting potential commercial outlook for all these advanced reactors. That'd be one thing.

We talk often about the fact that we're the only – we're the sort of the last man standing when it comes to large component manufacturing in North America. Our Cambridge site is capable of making large pressure vessels, which we use for steam generators, pressurizers and heat exchangers and the like. And that's the site where we're manufacturing the reactor pressure vessel for the GE small modular reactor. It is an SMR by definition, but because of that technology, it's actually quite a large vessel.

So, we have those two things. I would say, in addition to all that, there's kind of a – you might say a sort of a steady supply of experience or qualifications that we have that would be unlike a lot of competitors in the sense that we've been performing on nuclear projects for decades without interruption, particularly because of our commercial capabilities in Canada and because of our naval nuclear propulsion capabilities in the States. We've delivered literally 415 reactors to the nuclear navy. And so, that stream of business never stops. And there's really no one that can talk about experience or qualifications that would stand up to something like that. There're probably multiple others that I could cite, but we are differentiated in pretty deep and serious ways.

Peter Lukas

Analyst, CJS Securities, Inc.

Q

Very helpful. Thanks. And then just the last one for me. You talked a little bit about some of the incremental growth [ph] and proceeding nice – (00:28:27) making nice strides in Pele and DRACO. But can you walk us through a timeframe for that growth in the isotopes, microreactors and SMRs, specifically, or when do we look for that to kind of bolster the P&L in a more meaningful way?

Rex D. Geveden

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

A

Yeah. So, I would say, it's a pretty interesting situation. A lot of that really is now, right? We've built a portfolio in nuclear medicine that is really growing nicely. The therapeutics are starting to take off. And our imaging products are really growing in a very robust way. Microreactors, we have two prototype programs that are ongoing. And in small modular reactors, we're clearly active with the GE product and with TerraPower's Natrium reactor.

And so, maybe I'd sort of bucket it into three time horizons. In the near-time horizon, I would say, nuclear medicine and small modular reactors are contributing to the most growth near term. In the midterm, I would say, microreactors, even though we're doing work there now, as you get into production programs and commercial opportunities, I think you'd start to see that one rise. And then, I'd put AUKUS in that midterm bucket too, because we'll start to see interesting growth from that one over the next few years.

And then, on the long horizon, we've got enrichment opportunities for the national security application and perhaps commercial angles there that I think are really exciting. I think we can build an entire new franchise just on the national security component of enrichment. And then, you're going to see – and it's going to happen fast. You're going to see, I believe, announcements about large-scale nuclear reactors for grid-scale applications, obviously, to meet the emerging power demands.

There's not just data center and AI, and I've talked about this a lot before, but there's the electrification of everything; transportation, industrial process, as we drive toward clean energy solutions that puts immense demand on the grid and it's going to require a mix of technologies to growth coming. All of those are going to blend together to create, I believe, everlasting, almost, growth signals for this company – growth opportunities for this company. And so, we see these secular trends that we've talked about persisting for decades, certainly.

Operator: The next question comes from the line of Scott Deuschle with Deutsche Bank. Please go ahead.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good afternoon.

Rex D. Geveden

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

A

Hey, Scott.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Robb, the 2024 guide implies a sequential decline in EPS from 3Q to 4Q. I think that's a bit contradictory to your typical seasonality in the business, though. So, just wanted to see if you can walk through what's going to drive EPS to decline in the fourth quarter from the third quarter? Thanks.

Robb A. LeMasters

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

A

Yeah. Thanks for the question, Scott. As you know, we traditionally do have a significant fourth quarter dynamic. All year, frankly, we've been just sort of bringing some of that goodness what we normally see in the fourth quarter. We never know how it's going to sort of play out for the year. So, we're always banking on that happening, of course, by the fourth quarter. And you just think about different events that have happened throughout the year; performance fees at TSG, our performance on different microreactor contracts. And so, you just think about all that. And we've kind of almost taken some of that into the numbers. So, that de-risks the fourth quarter numbers specifically.

The other impact that I think you just need to be aware of is there will be a little bit of a sequential headwind from the activity we saw down in Tennessee. We were offline for three weeks. Not only do you have that sort of headwind, if you will, but you have the ramp-up going into the rest of the year. And so, we're just working our way through that. There's fits and starts of that. And so, if you just think about the sequential Q4 versus Q3, that factor alone really would cause you to sort of step down.

The last smaller thing is, I think you know that our corporate expenditures generally bump up because of just cadence around health care. That has an impact in the fourth quarter. So, that causes the sequential move down for the Q4 versus Q3.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's a helpful bridge. And then, Robb, excluding Tc-99, are you expecting growth to slow at the rest of BWXT Medical next year, or should we expect the base BWXT Medical business to continue to drive this 25% type growth next year? Rex's comments kind of seem to be alluding to that, but just wanted to check.

Robb A. LeMasters

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

A

Yeah, that's right. The underlying growth is really how we guided preliminarily to say, look, ex-Tc, we have a very small slice of spot volumes that I frankly think at the profit level is relatively neutral as it relates to 2025. But your question specific for sales, we do not bank on Tc in order to hit that sort of similar growth as what we're experiencing here in 2024. The portfolio is really strong across the PET products, TheraSphere is strong. So, it's really the underlying portfolio that's going to drive that.

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

David Strauss

Analyst, Barclays Capital, Inc.

Q

Thanks. Good evening.

Rex D. Geveden

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

A

Hi, David.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Hey. In terms of the new the Navy pricing agreement, can you give some additional color there? I know layering over time with the other contracts you're currently working on, but does that pricing construct, is that kind of holds going forward with future contracts? Does that allow the Government Operations EBITDA margins to kind of stay in that 20%, 20% or so range?

Rex D. Geveden

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

A

Yeah. David, that's certainly what we hope. As you know, we negotiate those into the low-, mid-teens as a starting point off the cost baseline and then drive OpEx, try to gain advantages in materials pricing and other such things and certainly with a high focus on operational excellence, maybe volume matters, to drive it into the high-teens, as we've done traditionally. So, that's our model and that's what we hope to achieve.

Robb A. LeMasters

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

A

Yeah. Maybe I'll offer just a specific on the margin. The dynamic that we saw in 2024 was strong underlying performance on the GO basis, right, basically fighting through mix all through the year, but holding that constant. And then, we obviously had the missile tube issue last Q4. So, when you exclude that, that we sort of held our own, underlying ex the missile tube, that's how I'm really sort of thinking about the 2025. Very similarly, of course, you have some immature programs that are ramping, whether it's microreactors or special materials. We obviously have the A.O.T. acquisition, small on revenue, but a touch lower in terms of margin. And so, we're really looking to hold underlying margins, which is like saying, look, you're fighting mix and you're growing underlying margin to offset the mix. That's how I see 2025 margins for GO.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Got it. Okay. And Rex, your comment about the carrier lull potentially extending into 2026, what's the background there?

Rex D. Geveden

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

A

Yeah. We've talked about that before, David, for a few quarters now. It has to do with the shipbuilding plan that the Navy published and when they intend to procure that next carrier. And so, depending on how the advanced procurement plays out, it could lead to an extra year of that same lull. We're hopeful and we're working it certainly, and we would like to avoid the supply chain disruption that that creates. But it's what we've been signaling for a few quarters now.

Robb A. LeMasters

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

A

Yeah. No. Two quarters ago, we announced the shipbuilding plan slightly changed, adding that third year. Of course, [indiscernible] (00:36:36) two investor days ago, we talked about that order intake being a two-year thing and then the new shipbuilding plan as it came out was a third year. And so, we just highlighted that to investors. That was pretty far off when we did that two quarters ago. And as Rex said, we'll continue to, as we do this pricing

improvement on the next one, try to look to effectively, as you know, we sort of all of our facilities are meant for various types of volume. And so, our customer is very focused on finding ways to drive as much volume as they can for a fixed cost infrastructure like we have and hope to be successful there.

Operator: The next question comes from the line of Peter Arment with Baird. Please go ahead.

Peter J. Arment

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

Q

Yeah. Good afternoon, Rex, Robb, Chase. Nice results. Hey, Rex, and maybe Robb might comment also, just maybe thinking about, you made comments about 2025 double-digit organic growth for commercial nuclear. Just, is that – how do we think about kind of the building blocks, is it obviously a pickup in refurbishment activity, or are you starting to see already contributions from Pickering, and is there a material revenue change tied to kind of what you're doing with GE Hitachi?

Robb A. LeMasters

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

A

Sure. Yeah. Maybe I'll start by just saying, that's exactly right. The big drivers we see in the commercial nuclear business, of course, there's two segments there. We've already talked about the medical, which will be a really nice driver of growth in the CO segment in general. As it relates to commercial nuclear, we have ways that we can play across the value chain, if you will, of nuclear. We have the large position in Canada. We have the medium reactors, if you will, with the SMRs, and then you have the microreactor play increasingly being of interest to people in that part of the market.

And when you think through the large, medium and small presence we have, on the large side, we're really seeing both refurbishment with Pickering, some pickup of thinking a little bit about greenfield activity that'll be a little further out, but that's where we're going to see some growth there over time. Probably doesn't bleed into 2025, but it's mostly about Pickering there as well as just generally the Canadian fleet seeing good growth, and we have that recurring business.

On the medium side, our project at Darlington as it relates to BWRX-300, that will pick up steam as we enter 2025. So, we'll get kind of a full year of that. And then, a lot of cats and dogs in and around that that we're doing for other competitors and trying to get some scope there and different engineering work for various companies.

And in the small, we don't have a huge presence yet on the commercial side, but obviously what we're seeing with Pele and DRACO educates ourselves on how to play in that market. So, I wouldn't be surprised if you get a little bit of – at least some work that we're going to start to think about over the medium term.

Peter J. Arment

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

Q

Got it. And then, just on the microreactor, I think, Rex, you made a comment about the Army RFP that was out there, is there any update on timing? And then, just lastly, on 2025 CapEx, is it still rather the kind of \$100-plus million of maintenance plus the \$40 million-ish of kind of growth CapEx, just any thoughts on that? Thanks.

Rex D. Geveden

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

A

Yeah. On the first opportunity, Peter, with the Army – sorry, with the Defense Innovation Unit, we submitted a proposal, we think a compelling one, with a pretty interesting team. I know there was a lot of industry interest in

that one. And we haven't heard back from the government yet. So, we're standing by for what we think is an interesting opportunity.

Robb A. LeMasters

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

A

Yeah. And I can deal with the CapEx question. So, we guided free cash flow to be up. We really haven't disaggregated the operating cash flow from the CapEx. We'll provide you more guidance on that next quarter. I will say a couple of things. One, you just look at our Q4 cadence to finish out this year, it's a step-up from the past couple of quarters. Why that is related around to the Cambridge expansion. As you know, we're trying to bring as much of that for just given all the demand signal we're seeing for the BWRX-300 as well as all the growth in Canada. So, we're trying to wrap our heads around how that sort of feathers into 2025. So, that's one factor.

I think the second factor that you just need to be aware of is, as we sign this this term sheet, we're trying to decipher sort of the operating cash flow, if you will, versus the CapEx. Several of our peers on the shipbuilding side of it – there are certain triggers of profit, if you will, or different cash flow that makes somewhat fungible between operating cash flow and CapEx is a small thing, but we're kind of coming through that and deciding where we need to invest on the naval side given what our customer wants in terms of accelerating Columbia, in terms of preparing for international growth and so forth.

And so, those are all factors that still puts you in and around the level that we've been running this year, maybe a touch higher. And we'll provide more guidance as we roll into 2025. But, no matter what the scenario is, we're sticking with our free cash flow, right? That's kind of how we guide the overall company. And so, we'd really ask you to focus on the free cash flow. And we'll deliver either operating cash flow or CapEx to perform at that level that we guided you to for 2025.

Operator: The next question comes from the line of Ron Epstein with Bank of America. Please go ahead.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Yeah. Hey, guys.

Rex D. Geveden

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

A

Hey, Ron.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Rex, just a big picture question for you. When we – we've seen the shipyards report this quarter and it's been really, really challenging for them, particularly on Virginia and Columbia. And, now, you guys have been doing great on it. And, like you mentioned, you've got a lead time on that. When does that catch up to you? I mean, meaning, like – or doesn't it, if they're still building that [indiscernible] (00:42:54) of Virginia class a year and it just seems like how much advanced procurement for power plants can the Navy actually do given that the shipyards are so far behind where maybe anybody hoped they would be at this point?

Rex D. Geveden

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

A

Yeah. Thanks, Ron. So, a couple of things I would say. Yeah, I'll reiterate the point that we're kind of a couple of years ahead of the shipyards when it comes to environmental, labor conditions, all of that. And so, that gives us a little bit of an advantage. And I think it's helped us to contend with those complex issues. I would add to that that we have a very sophisticated customer in Naval Reactors, and they really see around corners. And they supported us a few years ago with some submarine industrial-based funding that enabled us to go and add some training capabilities, to add some workforce, some talent acquisition capabilities, and some other kinds of depth, including some digital transformation dollars that we needed. And so, that's been extremely helpful to us. We're grateful to that – to what we get from our customer there. They help us think.

I guess the other thing I would say about it is, look, the shipyards are not slowing down. They're just not achieving the shipbuilding tempo that's required by the Navy. So, they're going full steam ahead and the supply chain is going full steam ahead. And I don't think there's any world in which you could conceive of just stopping the supply chain to let the shipyards catch up to the supply chain. Right? So, if you stood down the supply chain for two or three years or whatever it was, you would literally lose the capability. And so, I think the wisdom of the Navy, the wisdom of the appropriators is we've got to keep the supply chain going even if there are challenges at the shipyard and you just got a bet that the shipyards are going to get it sorted out and they'll get up to the production rates that are required for a defense needs.

And I believe that they will, I certainly believe, you got to bet on that outcome. But you can't just ask your supply chain to go and take a vacation for two or three years. And so, I think we're going to continue to produce at the levels that are appropriate for our business, including the idea of level loading our factory and letting our customer take full advantage of the rates that go with that.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got it. Got it. Got it. And then, maybe changing gears a little bit. At the Investor Day, you guys mentioned that you thought maybe the SMR market could be \$300 billion by 2040. How much of that could you guys actually capture? And how much of SMR is your business today and where could we expect it to be in 5 or 10 years?

Rex D. Geveden

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

A

So, that is a big picture question, maybe a little tough to speculate, but I'll give you maybe some ways to think about it. If you look at the GE BWRX-300, we've said that we thought we would get maybe \$100 million of content on that – \$100 million of content on that reactor, US. We've got work going with TerraPower now on the Sodium reactor and contract there that could lead to maybe tens of millions.

And so, I think, on a per unit basis, you can think about it in those terms, Ron. I mean, it's possible that we could put ourselves into a partnering configuration with a reactor developer and capture more scope. And certainly we have those kind of conversations. But when you think about our role as a merchant supplier to the market, that's how I would scale it. And so, take the number of units and multiply it by those kinds of numbers as kind of the baseline consideration for our growth, with the possibility of sort of leveraging our capabilities with a partnering kind of approach.

Robb A. LeMasters

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

A

Yeah. I might add a couple other just sort of call options in that space. Some of those platforms demand field solutions. So, we have really good expertise in that area of TRISO and so forth. And so, we do have plays that we

can actually get the component manufacturing that Rex talked about underlying those. We're certainly going to be ready and willing to help other players on the fuel side, and that's a very challenging part of their equation. And so, as they ramp, we're ready and able to satisfy some of those SMR demands on the fuel side.

The other thing that I would say is that we've expanded our facility to accommodate the BWRX-300 and the Canadian growth. And as growth continues to show itself up in the US, you can imagine that our sites that are principally government sites, in terms of component manufacturing in the US, are very able to have US capacity. And so, as those customers in the US start to show themselves and look for solutions where they want a domestic supply chain, I think there's other options that you're going to see more from us in the near term in terms of manufacturing capability in the US, in addition to our expansion in Canada.

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

Andre Madrid

Analyst, BTIG LLC

Q

Hey, everyone. Thanks for taking my question. I wanted to ask a quick one. I think, late October, the deal we selected for providers for domestic high-assay, low-enriched uranium production, I think the max was about like \$2.7 billion. Was this something that you guys were bidding on? I know you won a similar award earlier in the month for deconversion, but I wasn't sure if there are other ways you guys are looking to play the newfound demand for domestic uranium?

Rex D. Geveden

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

A

Yeah. So, that's an opportunity we did not submit a proposal for, that's really about developing commercial capability in the enrichment space, and there are other companies that are better suited to do that. So, there are places where we can play. We have some nice niches in deconversion, for example, that you mentioned. But our intention was not to get into large-scale commercial fuel enrichment. That's not where we play.

Andre Madrid

Analyst, BTIG LLC

Q

Got it. Got it. And then, I think Amentum was selected for a decommissioning contract in Lithuania. It was pretty small, but I kind of saw it and looked at it as a good opportunity to look at, revisit where you guys were exploring international opportunities moving forward and how those could contribute to the broader business?

Rex D. Geveden

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

A

Around decommissioning?

Andre Madrid

Analyst, BTIG LLC

Q

Just international opportunities at large to decommissioning at large?

Rex D. Geveden

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

A

Okay. So, maybe two different, maybe I'll parse that one a little bit. From the standpoint of decommissioning or environmental remediation, we haven't really looked much to international scope. And certainly we're not

interested in exposing ourselves to the risk that comes with sort of the fixed price large-scale decommissioning projects that are out there. We just haven't chosen to play there. We like the decommissioning and environmental remediation work in the DOE space. It's cost reimbursable, the risk is bounded there, and it's something that we understand and I think it can contribute meaningful value, too. And so, I don't think you'd see us doing decommissioning in Lithuania or places like that.

The commercial nuclear power development opportunities in international are pretty intriguing. I mean, I think, if you look at the CANDU footprint, we already work in places like Romania and to a limited extent in Argentina and in South Korea. And I think those refurbishment projects in Romania and new reactors there that are around the CANDU technology are exciting and important for us for growth. And there's interest in scaling that CANDU technology to a gigawatt scale reactor called MONARK, and we certainly have a role to play there. And we believe there will be an international footprint for that MONARK reactor, and others, right? There are things out there like the AP1000 and others where you could see us contributing. So, I think the international opportunity is significant and we'll find ways to play in.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

A

Ron, could you open for the next question, please?

Operator: Michael Ciarmoli with Truist Securities. Please go ahead.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Hey. Good evening, guys. Thanks for taking the questions. Nice results. Maybe, Robb, just to dig a little deeper on the EBITDA margins, it sounds like you're grappling with some of the hurricane-related disruption this year. And I know you called out mix. But maybe what specifically is dilutive, because I guess at the consolidated level, the EBITDA margins are going to be flat next year, I would have thought, maybe you get a little bit more lift in medical, is anything materially changing with mix that's creating some of that, I guess, lack of margin expansion?

Robb A. LeMasters

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

A

Yeah. We've been talking about this all year. I mean, the easiest example you have is the microreactor programs that we have. We're not looking to take risk and make a lot of margin there. Right? So, we signed up the two most important contracts in Project Pele and Project DRACO. And so, those come in at lower margins with really solid revenue and allows us to maintain a lead by having those prototype contracts. That's a 2024 impact as well as into 2025. You also have a few special materials contracts that come in where we're constructing line around new metal, as you know. That comes in at a lower margin versus the other business.

We also are just dealing with mix as it relates to the core naval segment. You know that we're going through the lull. And so, we've been actually doing quite a nice job of moving business around or seeing actually our Lynchburg plant doing excellent job of moving between upper tier and lower tier components, and ultimately that's driving us to continue to maintain margin despite a relatively sort of tide going out, if you will. Right? And our naval business, as you can expect, is also a good margin business for us.

So, immature programs as well as just general non-robust volumes, which we've been well choreographing for the first couple of years of our medium-term guidance until that aircraft carrier load dissipates, all that just makes us

sort of have to grind through and maintain margins. So, it's mix and a little bit of just core underlying softness just given you're not – just don't have abundant volume, which generally helps a business like ours.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Got it. That's fair. And just quickly on Pele. I think the initial contract is like \$300 million and it probably runs its course in 2025. Do you get additional funding for that or do you kind of complete your portion of the work in 2025? I guess I've seen in the press releases out there with their kind of testing and construction sites. But what has to happen in terms of Pele and your funding and next steps?

Robb A. LeMasters

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

A

Yeah. It's Robb. I'll take that. Yeah. So, you're right. That was the initial contract. Now, the customer, we work with the customer, as they have expanded their scope and different things that they want as part of that, that will not end in 2025. We continue to see different interest in different features. We see different spending as we move it out to Idaho. And so, that's not going to be a program that terminates in 2025. So, there will be a tail. And I wouldn't be surprised if it runs higher than the \$300 million.

Operator: The next question comes from the line of Tate Sullivan with Maxim Group. Please go ahead.

Tate Sullivan

Analyst, Maxim Group LLC

Q

Hi, Rex. You mentioned the potential to turn the enrichment to build a new franchise from a security portion of enrichment. Do you have the potential to be a sole source supplier in this market or will it be mostly be a design effort or technical services opportunity?

Rex D. Geveden

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

A

So, Tate, we were the sole awardee of that contract. They did have – the government did say that they could award to multiple contractors, but they just awarded to BWXT. So, it's possible we could be the sole supplier for both the centrifuges and for the enrichment capability. But that depends on what the government wishes to do in the long term here. But it's a very interesting opportunity for us.

Tate Sullivan

Analyst, Maxim Group LLC

Q

And is the next step according to the press release from August 29 related to submitting a report on the potential costs and time line to build a pilot enrichment facility starting 2027...?

Rex D. Geveden

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

A

Yeah, that's exactly right. We started the contract in August this year. So, it'll run through late summer next year, and we'll deliver our report, yeah, on the concept for the manufacturing site, for the centrifuges and other such things and then hopefully go into Phase 1.

Operator: That concludes our Q&A session. I will now turn the call back over to Chase Jacobson, Vice President of Investor Relations. Please go ahead.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Yeah. Thanks, everybody, for joining us today. We look forward to seeing and speaking with many of you at conferences and other events over the next quarter. If you have any questions, please feel free to reach out to me at investors@bwxt.com. Thanks.

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

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