

04-May-2021

# BWX Technologies, Inc. (BWXT)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Mark Kratz**

*Vice President-Investor Relations, BWX Technologies, Inc.*

**Rex D. Geveden**

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

**David S. Black**

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

---

## OTHER PARTICIPANTS

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

**Bob J. Labick**

*Analyst, CJS Securities, Inc.*

**Peter J. Arment**

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

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to BWX Technologies' First Quarter 2021 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, Mark Kratz, BWXT's Vice President of Investor Relations. Please go ahead.

---

**Mark Kratz**

*Vice President-Investor Relations, BWX Technologies, Inc.*

Thank you, Todd. Good morning, and welcome to BWXT's first quarter of 2021 earnings call. Joining me today are Rex Geveden, President and CEO; and David Black, Senior Vice President and CFO. On today's call, we will discuss certain matters that constitute forward-looking statements. These statements involve risks and uncertainties including those described in the Safe Harbor provision found in yesterday's earnings release and the company's SEC filings. We will also discuss non-GAAP financial measures which are reconciled to GAAP measures in the quarterly materials that are available on the BWXT website.

With that, Rex, I will turn the call over to you.

---

**Rex D. Geveden**

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

Thank you, Mark; and good morning, everyone. Yesterday we reported solid first quarter results with earnings of \$0.73 per share on over \$0.5 billion of revenue and strong operating cash flow. Year-over-year revenue and earnings comparisons are down slightly at the consolidated level, given a tough compared to a robust first quarter

last year. However, 2021 performance to-date is what we expected and just as we outlined on the last earnings call. BWXT is off to a swift start in 2021, with success on several significant milestones.

So, let me give you an update on those matters before turning the call over to David, to discuss detailed financial results and guidance. The Nuclear Operations Group was awarded a \$2.2 billion contract for the 2021-2022 pricing period from the Naval Nuclear Propulsion Program. The content for this award includes components and fuel for the continued cadence for two Virginia-class submarines per year as well as incremental Columbia work.

Although the President's budget request for 2022 has not been released, we anticipate bipartisan support for the Navy's nuclear platforms and shipbuilding accounts. We look forward to additional budget information from the new administration in the coming weeks. Apart from the pricing agreement, we are reasonably facilitated to move to a three Virginia-class submarine cadence in non-sequential years if required, similar to the schedule from the Navy's most recent 30-year shipbuilding plan, assuming some delivery day flexibility.

We await an updated 30-year plan and in a scenario where a more condensed third Virginia ordering cadence is planned then a modest amount of incremental capital investment would be required. Outside of Naval Reactors, NOG was awarded \$57.5 million from the Department of Energy to design and stand up a pilot process for purifying enriched uranium into a safe metal form. This is new scope for BWXT and it leverages the unique NRC Category 1 credentials infrastructure, security and workforce that could result in production orders in a few years once this capability is fully demonstrated.

Lastly, the segment also announced two additional awards totaling \$35 million this quarter. The first awarded by Naval Reactors is for uranium recovery from scrap, waste and unused product to be processed and reused. The second award from the Department of Energy is for completing the second phase of a new research reactor fuel line using high SA, low enriched uranium; another non-proliferation activity that BWXT will perform. In Medical, we continue to make both strategic and tangible progress with the commercialization of the technetium-99m generator product line.

In March, we announced the formation of a joint venture with Global Medical Solutions, a leading centralized radiopharmacy operator and radiopharmaceutical manufacturer and distributor. The JV intends to manufacture and distribute BWXT radioisotopes and radiopharmaceuticals in the Asia-Pacific region, as we look to expand our go-to-market strategy. As noted in the press release, the new entity would replicate BWXT's tech-99 generator infrastructure and operations in Asia beginning in 2023. We view this agreement as another endorsement of BWXT's unique technology and it lays the groundwork to capture global market share of technetium-99 which is utilized in over 40 million diagnostic imaging procedures per year.

On a related note, we'll continue to make significant progress on technetium-99 generator commercialization in North America. In April, we completed in-cell radiochemistry equipment installation; and for all practical purposes, we considered the radiochemistry line to be complete. We are also on track to complete the last major facility modifications this month; two important milestones that draw us closer to commercialization next year.

The other two major components, the radiopharmaceutical and target delivery systems are both progressing as planned. We anticipate having a fully manufactured target delivery system this month and we will participate in a Canadian Nuclear Regulatory Commission public hearing in June, to receive the anticipated approval for modifications to the OPG reactor for our equipment. In the first quarter, the team further reduced program risk by demonstrating a full pilot production run utilizing the BWXT generator.

We took the process from start to finish, producing natural moly targets, irradiating them at the Missouri University Research Reactor, processing the moly-99, loading it into the BWXT design generator, and eluding technetium over the course of two weeks. The elusion process demonstrated 95% generator efficiency, better than the requirements, and other generators on the market today.

In the services business, BWXT was awarded a \$690 million contract extension for environmental management and cleanup work at the Portsmouth Gaseous Diffusion Plant, further demonstrating the company's breadth and depth in nuclear waste management and commitment to environmental remediation efforts at the Department of Energy. The services business also wrapped up two more proposal submissions including the Y-12/Pantex management and operations and Oak Ridge reservation cleanup. We now have four large DOE proposals submitted, and anticipate three of those contracts to be announced sometime later this year.

And lastly, we achieved significant milestones with two microreactor design awards in BWXT's advanced technologies business. Most recently, NASA awarded the company additional scope for nuclear thermal propulsion. This extends our efforts with NASA for another year, as the agency's nuclear thermal propulsion initiative begins to transition from development to technology demonstration.

In March, the DoD's Strategic Capabilities Office down selected and awarded BWXT a final design phase contract for a transportable microreactor prototype. This leaves BWXT as one of the two possible contractors for a full-scale demonstration in the years to come. BWXT's innovative designs and uniquely license facilities continued to deliver innovative nuclear solutions for the evolving mission requirements of the DoD, including the reduction of its carbon emissions.

Following successful completion of the final design phase, the Strategic Capabilities Office would be in a position to award a demonstration phase. And beyond a prototype demonstration, the program could lead to a nuclear reactor production program to ensure that the DOE's domestic infrastructure is more resilient to electrical grid attacks and that energy logistics for unique defense application is more simple and robust in future.

The early successes in microreactors underscore the company's robust capabilities in design, engineering and manufacturing that position as well to compete for subsequent work, as these first-of-a-kind solutions are developed for meeting power generation and mission requirements of the future.

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

---

## David S. Black

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

Thanks, Rex; and good morning, everyone. I will start on slide 4 of the earnings presentation with total company results. First quarter revenue was \$528 million, down 2.6% primarily from lower NOG revenue compared to a robust first quarter last year, which was partially offset by higher NPG revenue. First quarter earnings per share were down 7.6% to \$0.73 as a result of less operating segment earnings, higher other expenses and a higher tax rate. Those headwinds were partially offset by higher pension income, foreign exchange gains and lower interest expense.

A quarter-over-quarter bridge can be found on slide 5. Moving to the first quarter segment results on slide 6. The Nuclear Operations Group generated \$402 million of revenue, down about 5% compared with the prior-year period, primarily from lower long-lead material production. NOG operating income was \$74.4 million, down 18% from the prior-year period. Operating income was just disproportionately lower than revenue due to a combination of lower volume and fewer favorable contract adjustments that were in part driven by negative impacts from

COVID absences that we discussed on the February earnings call. This resulted in an 18.5% operating margin for the segment in the first quarter.

We do not foresee any change to the typical high-teens margin with upside from pension reimbursements for the full year for NOG. And Nuclear Power Group first quarter revenue was \$107 million, up 22% compared with the first quarter last year, driven primarily from higher field service, parts manufacturing and fuel handling activity, partially offset by lower component volume. While not a significant driver, we note that BWXT Medical was up 6.5%, as the market continues to show positive signs of recovery following COVID impacts from last year. NPG operating income was up 20% driven by higher volume and resulted in 9.6% operating margins for the segment in the first quarter.

Lastly, Nuclear Services Group operating income was \$5.7 million in the first quarter, down less than \$1 million versus the prior-year period as better contract performance was more than offset by the absence of US commercial service income due to the sale of the US Nuclear Services business in 2020. Overall, we are reiterating 2021 guidance on slide 7 and 8. We continue to see the midpoint of our earnings guidance as the most likely outcome for the year, as solid progress to-date is balanced with higher expected development expenses associated with the preparation of the company's technetium-99 generator product line.

We have guided other operating expense including R&D to greater than 1% of revenue for this year, and wanted to put more specificity around those costs. We anticipate those heightened expenses will be about \$30 million for 2021, now that investing triggering milestones have occurred and we have better line of sight on how those will unfold through the remainder of the year. We also anticipate slightly higher interest expense this year with the recent issuance of \$400 million in senior notes. We intend to use those proceeds to redeem the notes due in 2026 on or after July 15th this year, ultimately resulting in lower interest expense, but will not see the net effect of those benefits until 2022.

Following the redemption of the 2026 notes, BWXT will continue to have a well-positioned balance sheet with a staggered debt structure well into the future. For 2021 guidance, we also reiterate our expectation that earnings will be back-half weighted with an approximate 45-55 split for the year, driven primarily from NOG timing, the recovery in NPG from COVID and the cadence of NSG awards. I would also note that CapEx is still anticipated to be about \$250 million for the year, as evidenced in our first quarter results with over \$100 million expensed to-date.

Lastly, I would like to introduce our new multi-year guidance on slide 9. Yesterday, we published our new multi-year guidance framework which we are designating as medium-term financial targets. We view this timeframe similar to our prior multi-year EPS guidance generally over the next three to five years. However, we are pivoting our focus to multiple aspects of financial performance and capital allocation, and we intend to revisit this guidance at regular intervals or if there are any major shifts in the BWXT strategy.

This structure will continue to give analysts, investors and other stakeholders a rolling view of the targets and focus areas of the company moving forward, knowing that any one year may have push or pull effects on the three major components depending on growth cadence: CapEx and working capital for free cash flow, and other investment opportunities for capital allocation. We anticipate mid- to high-single digit adjusted EBITDA growth rates over the medium term, driven by revenue increases across all segments and margin expansion outside of the Naval Reactors business.

Measuring adjusted EBITDA provides greater insight into the underlying growth over the next several years, as depreciation headwinds pick up from the recent intense capital campaigns in both the Navy and Medical

businesses. This measure also removes any variability for non-cash pension income taxes and share repurchase, resulting in a cleaner look at operational performance. As we shift to maintenance capital expectations exiting 2022, we expect robust free cash flow to return and are aiming to convert more than 85% of adjusted net income to cash, with some annual fluctuations for working capital and pension funding requirements.

And lastly, we are committing to return more than 50% of the company's free cash flow to shareholders through dividends and share repurchases. While we don't have a discrete dividend policy, the Board of Directors continues to support the regular payment of a healthy dividend, as it is viewed as a cornerstone in the company's ability to generate and return future cash to shareholders. We anticipate continuing to pay the dividend in line with historical ratios to earnings, which has ranged between 20% to 30% in net income since the spin in 2015.

The remaining balance of our return to shareholder commitment will be fulfilled with share repurchases pending market conditions. This commitment reflects a strong balance between our desire to be shareholder-friendly, while continuing to maintain the flexibility to invest in possible future opportunities both organically or inorganically. To be clear, we do not anticipate building large cash balances and we will look to return any excess cash to shareholders. To that end, the Board of Directors recently approved a new \$500 million share repurchase authorization with no expiration date. This action supports our strategic capital allocation commitment in order to maximize long-term shareholder value.

And with that, I will turn the call back over to Rex, for some additional color on our new medium-term financial targets.

---

## Rex D. Geveden

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

Thank you, David. We believe that our new medium-term guidance accurately reflects BWXT's ability to profitably grow as it has since the spin in 2015. Our growth targets include the assumption of increases in the base business as well as progress in several key initiatives that have been advancing over the last few years. We anticipate continued growth in the Naval Reactors business and other opportunities to expand NOG's product and service offerings.

Growth also contemplates successful technetium-99 introduction to the market in 2022 and share gains in that product as well as others over the subsequent years, while also expanding margins in the BWXT Medical business. The other significant portion of our growth is anticipated to come from new wins in the Nuclear Services business and continued traction in micro reactor programs, as they progress from design to demonstration phases.

David mentioned, we expect to convert more than 85% of net income into free cash flow, as we transition to maintenance CapEx levels towards the end of 2022. Our current strategic planning does not anticipate significant capital investment beyond that. But we remain flexible to make those investments which could further support and extend growth in the company. And lastly, we want to make the commitment to return a majority of free cash flow back to investors over the medium term. We plan to continue to pay a strong dividend and supplement the rest of that commitment with share repurchases.

We see the commencement of these medium-term financial targets as the first step towards an Investor Day later this year. In the coming quarters we expect to make significant strides and major milestones across the company, including the new tech-99 generator product line and anticipate more visibility and how the growth in Nuclear Services will unfold. We look forward to sharing more depth and insights about the company with investors sometime this fall.

And with that, I will ask the operators to open the line for questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Robert Spingarn with Credit Suisse. Please go ahead.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning, everybody.

**Rex D. Geveden**

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

A

Good morning, Rob.

**David S. Black**

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

A

Good morning, Rob.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Well, actually could we just start on the microreactor business? And you've talked a lot about the developments there and it's gaining some momentum. But can we frame this in some kind of time horizon, when this goes from sort of concept to development to production? And when this could get to some kind of a critical mass for you? Is it five years – 2025 type of timeframe or is it 2030? How do we think about that?

**Rex D. Geveden**

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

A

Yeah. So Rob, the way I've talked about that in the past is that we're going through, what I would call, sort of technology development for the most part and in some cases designs for demonstration reactors in the cases of nuclear thermal propulsion and the reactor for DoD. And those would transition into demonstration programs fairly shortly; in the case of the [ph] SKO (00:19:56) reactor, it would be next year if that decision is taken and funded. For NASA, maybe a little longer term for a demonstration program. So, we'll start to see demonstration money as early as next year and on into the next few years.

And as I have said in the past, these programs for us right now run in the tens of millions a year. When you get into a demonstration phase, it'll be a few hundred million let's call it, whether that's a terrestrial demonstration or an on-orbit demonstration in the case of NASA. And then, production programs would presumably follow that. And so, the way I think about – and those programs – obviously, the sales there depend on the production tempo. But those would follow demonstration, and I would think of those as being in the latter part of the decade 2027-2028, let's call it.

So I think it becomes a very interesting part of the business maybe in six or seven years from now, something like that. And as I said in the past, in the ideal case we're able to construct a new vertical for the business that maybe sort of resembles our Naval Reactors vertical.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And those numbers you throw out there, are those for BWXT or would those be total program you'd share some of those revenues?

**Rex D. Geveden**

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

A

So, those are total program avenues that I threw out there and it depends on whether you're prime or not. For example, we would prime a reactor demonstration program in the case of the DoD on a space one with a spacecraft and launch vehicle. We might be in a subcontractor position on that one, but those are total program figures.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And then just one quick one for David on cost inflation in the supply chain. Are you seeing any pressures that we're seeing broadly in the economy? And is there any lag in terms of the recoverability of that in your contracts with customers, such that it can have an impact to margins? Thank you.

**David S. Black**

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

A

So, as everyone else is, we're seeing input prices increase. But we have negotiated in our contracts appropriate levels of inflation and using indexes. So at this point in time, we feel secured that we'll still be able to get the margins that we have mentioned.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

And in addition to the pricing or price inflation, is availability of inputs satisfactory?

**Rex D. Geveden**

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

A

Yeah. Right now, for us, we're not having any problem with the supply chain providing the materials and things that we need in order to get our production in process.

**Robert Spingarn**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Thank you, both.

**David S. Black**

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

A

Thank you. Rob.

**Rex D. Geveden**

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

A

Yeah.

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

**Bob J. Labick**

*Analyst, CJS Securities, Inc.*

Q

Good morning. Congratulations on a lot of nice milestones across the board.

**Rex D. Geveden**

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

A

Thanks, Bob.

**David S. Black**

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

A

Thank you, Bob.

**Bob J. Labick**

*Analyst, CJS Securities, Inc.*

Q

I wanted to start with – Rex, I think you mentioned a full pilot production program using your technetium generator with 95% efficiency. I guess the question is, maybe expand on that a little bit and how is that product that you've done the pilot on different from what you will be submitting to the FDA later this year presumably? And what are the biggest hurdles to getting to that point? But is it the same kind of thing, you just need some approvals before that or how does that product differ from what you ultimately will submit?

**Rex D. Geveden**

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

A

Yeah, Bob. So, that product is basically identical to what we will be producing. The only difference is, we were using a BWXT design generator and we were using material from the Missouri University Research Reactor. But it wasn't running through our plant in Canada, right. It wasn't running through an automated radiochemistry, radiopharmacy line. So, that'd be the difference. It was more of a manual process, but it's a very important milestone because it tells us how the generator works.

And we were able to demonstrate that the elution efficiency, which is sort of the rate at which we're able to draw that technetium out of the generator, was best-in-class. And we also were able to pair that material, tag that material to various cold kits which are the molecular vectors that take the radioisotope to the correct part of the body. So, it's very important for us to be able to demonstrate that our generator does work appropriately and the rest of it is just automation from here.

**Bob J. Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay. Great. That sounds fantastic. And then, just one other one quickly. Where does M&A fit into your medium-term or multi-year guidance and how is the market looking right now? I mean, you guys have so much on your plate anyway. Are you like looking for M&A opportunities right now or are you focused internally?

**Rex D. Geveden**

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

A

So, we didn't preemptively bake any M&A into that medium-term guidance, although you can think about maybe pushing our performance into the top end of that guidance range by augmenting it with some acquisitions. We do have an active M&A pipeline. And if we find something that really fits and that can amplify our strategic intentions, then we would do it. But I think you're correct to say that our focus right now is really on building out this organic growth that we've been capitalizing and ensuring that we have success on that, but M&A is always an option for us.

**Bob J. Labick**

*Analyst, CJS Securities, Inc.*

Q

Thanks so much.

**Rex D. Geveden**

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

A

Thank you, Bob.

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

**Peter J. Arment**

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

Q

Yes. Good morning, Rex, David.

**Rex D. Geveden**

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

A

Good morning, Peter.

**Peter J. Arment**

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

Q

Hey David, on the medium-term financial targets, you mentioned kind of the modest improvements in working capital as a percent of sales. Is that 100 basis points, 200 basis points? Maybe you could just level set us on how you're thinking of that?

**David S. Black**

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

A

I mean, we haven't defined what that modest is. There's going to be some improvement over time. But we do have fluctuations when you look quarter-to-quarter with our working capital, as we build up our contracts and progress and things. So we just think, as we look over time there'll be just some small modest improvements in that in order to provide the additional space for us.

**Peter J. Arment**

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

Q

Okay. And Rex, just on the JV with the GMS. Maybe you could just – what are some of the components of the deal? Maybe how do you expect to report it in your financials? Thanks.

**Rex D. Geveden**

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

A

Yeah. So, that deal is structured so that our partner would capitalize the investment. And the way we would participate is to contribute our technology into that special purpose entity, our intellectual property and then we share in the economics. And so, it comes across as income in the future.

**Peter J. Arment**

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

Q

Great. Thanks, guys.

**Rex D. Geveden**

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

A

Yeah. Thanks, Peter.

**Operator:** The next question comes from Pete Skibitski with Alembic Global. Please go ahead.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Hey. Good morning, Rex and David and Mark.

**Rex D. Geveden**

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

A

Good morning.

**David S. Black**

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

A

Good morning.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Hey guys, the COVID-related absences at NOG in the first quarter sounds like there was a negative margin impact there. Is it safe to assume that you're kind of out of the woods there the balance of the year?

**Rex D. Geveden**

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

A

Pete, I think that we certainly hope so. If you look at the way COVID ran through the business, it looked somewhat like the national curve and that they were kind of three peaks: the beginning one, the one early summer, and then it really was most impactful to us in the fall and winter timeframe. We started to see pretty significant impacts around October, worse in November, worse yet in December, and it peaked out around the second week of January for us and then started to roll off, but it bled on into February.

And we've sort of gnawed our way through the problem and we've been kind of hitting our numbers, but it's absolutely affected production in the plants. What happens there in that case is, of course, you get less productivity, less product rolling through the shop, and then therefore less favorable contract adjustments as a consequence of all that. And to give you a sense of the magnitude, there were times when our largest plant in

Lynchburg had over 10% absent either from quarantine or from having to be evacuated from their workstations to do a decontamination exercise following a potential contact.

And some of our other large plants, we had 7% or 8% absences day-to-day at the peak. So, it really did roll through the plants in a way that was impactful. Yeah, we're certainly seeing much improved rates and much, much lower quarantine numbers at this point and we're hoping that we follow the trajectory of the US and get out of the woods on this soon.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay. Okay. Yeah, I appreciate the color. It's great. And now on the financial targets, it sounds to me like a mid-to high-single digit adjusted EBITDA that roughly corresponds to the top line growth. But can you maybe clarify on the depreciation and amortization, and it sounds like that will play a role? Because I know guidance this year is \$65 million. David, I mean does that get to over \$100 million by the end of the period or just trying to get a sense of how much D&A kind of contributes to that?

**David S. Black**

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

A

Yeah. No, I think as we look now, we're saying that 3.5% to 4% is what our continued maintenance capital is going to be. But your depreciation, because of the high capital that we currently have been spending, will get us closer to that \$100 million towards the end of that period. So, we feel that looking at adjusted EBITDA is just a much better picture for us to look at our operations in the underlying business.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Yeah. No, so that makes sense. Last one from me. Hey Rex, some of the other companies out there won that DARPA DRACO contract. I thought maybe you guys were going to play on it. And if you did, was it a surprise? Was it a disappointment? I just want to kind of get your thoughts around that. I know it's kind of a different mission area, [ph] but I wanted to be thought (00:30:36) about it.

**Rex D. Geveden**

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

A

Yeah. Yeah, that was an interesting one. We were certainly interested in that contract. We do have a continuing relationship with DARPA on that and with some of the spacecraft providers. And so, we're kind of in the game, but we were not awarded a prime contract.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay. Okay. Okay. Thanks very much, guys.

**Rex D. Geveden**

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

A

Thanks.

**David S. Black**

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

A

Thanks, Pete.

**Operator:** The next question comes from Michael Ciarmoli with Truist. Please go ahead.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Hey. Morning, guys. Thanks for taking the questions here. Nice results.

**Rex D. Geveden**

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

A

Good morning, Michael.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

How are you guys doing? Rex, just to stay on what Pete has just asked. On that DRACO, to be clear, it would seem that General Atomics can prime everything and do everything themselves, but maybe Blue Origin or Lockheed could pull you in as a reactor or a sub-contractor. Is that the right way to kind of look at [indiscernible] (00:31:37) this opportunity, but maybe even future opportunities where you can get pulled in as a component supplier?

**Rex D. Geveden**

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

A

Yeah. That's exactly right, Michael.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Okay. David, just – did you say there was a \$30 million of increased expenses this year kind of flowing through related a lot to the isotopes and some other development expense – programs?

**David S. Black**

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

A

No. In our other segment, what we're saying is that that segment is going to increase \$230 million. I think the forecast was \$26 million or so. So, it's gone up some. Because of the additional expenses, did not increase \$30 million. So, it's just gone up 10% or so to cover the additional commercialization cost that we feel we need in the current year to get us to the FDA submittal here and then to production next year.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Got it. So then, how do we think about – as you get into production and maybe even tying into the medium-term targets, you'll presumably get a roll off of these expenses. And I don't think you put a fine pencil on it yet, but the margins presumably in the isotopes I think will always going to be accretive to NOG. But should we think about, once everything comes online, seeing a pretty big tailwind to margins, obviously you'll have the core naval reactor which is not a pretty mature margin. But maybe how should we think about the margins as they trend in that segment into next year once you get into production?

**Rex D. Geveden**

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

A

So Michael, I'll take that one. So, certainly in the – that's the way to think about that business. That product line, in the long term, it's going to be margin-accretive certainly. In the intermediate term, let's call it, as we ramp up into production, we'll be bearing some pretty heavy expenses and ramping to what will be our ultimate production level over the first year or two in that product line.

So, I wouldn't anticipate a lot of [ph] top (00:33:48), a lot of tailwind until we've gotten into, let me call it, full stride on production. Now, we intend to give you much more color around that when we get to the Investor Day later this fall, so that you can see more transparently how we expect that business to unfold and to grow.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Got it. Got it. Perfect. And then just last one for me. The NPG, you had a really strong quarter on the top line. Good growth and it sounded like you're still waiting for that business to kind of start to normalize from COVID, but the revenue growth decelerates for the rest of the year. Is that just normal seasonality outage and timing? Or what's happening there with NPG for the remainder of the year?

**Rex D. Geveden**

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

A

Yeah, you have that right. It's just some natural cyclicity of the business.

**Michael Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Got it. Thanks, guys. I'll jump back in the queue.

**Rex D. Geveden**

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

A

Thank you, Mike.

**Operator:** [Operator Instructions] Next question comes from Ron Epstein with Bank of America. Please go ahead.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Yeah. Couple of questions for you.

**Rex D. Geveden**

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

A

Hey, Ron.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

How has the American Rescue Plan changed your pension considerations in terms of CAS recoveries and funding and so on and so forth?

**David S. Black**

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

A

Ron, it really has not done a lot for us. I think that we got our pension plan into a period of fully fund – I mean, from an [indiscernible] (00:35:29) standpoint we've funded enough. So from a CAS standpoint, we still anticipate that we have the additional plus ups for us from a CAS basis out to [ph] \$24 million (00:35:42). But right now, our funding is under \$20 million a year. So, we don't see an impact of delaying a lot of funding payments. I think what we're more interested in is trying to shore up that pension and annuitize what we can, when we can, so we can knock off the liability eventually.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. How does the change in the R&D consideration under the tax law unless it's reversed impact you guys? You have to amortize it now over five years versus taking it all at once?

**David S. Black**

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

A

Yeah. I mean, remember, our R&D right now is less than 1%; it's actually 0.6% I think this year. So the impact to us is going to be very small. We do take advantage of any tax benefit we can get. But the change in benefit is going to be very small.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. And then on the mid-term guidance, why is the cash conversion only 85%? I would have thought kind of a company in your position would be higher than that?

**David S. Black**

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

A

No. I mean, once again we – as we grow our business, we've got to have the ability to fluctuate with working capital. We also have some pension payments that still have to exist in the out years. So, right now we feel that the 85% is a good measure. There'll be times that we're at more than that; and in times maybe a little less. But we feel that as a measurement period or a measurement going forward that that's a good basis to start from.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. And then maybe one last final one on your EBITDA growth target. How much of that's predicated on just kind of the core business and how much of that is predicated on new businesses? I mean, broadly speaking, is it sort of like two-thirds core business, one-third new businesses? I'm just trying to get a sense on how much in that your banking on, things like the Medical business growing, and so on and so forth?

**Rex D. Geveden**

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

A

So Ron, I'll take that one. I'd say that – maybe I'd answer a slightly different question than you asked if I could. The way that we're thinking about it is that, if you wanted to get into the upper range of our guidance then these strategic initiatives need to pan out appropriately and our base business needs to do what we anticipate it's going to do. So, kind of in the high scenarios you made your business does what you wanted to do. The isotope story

unfolds the way that we expect which is, the moly project is successfully and we gained the market share that we expect.

We win a good share of these Department of Energy technical services opportunities and we get – continue to have some traction with the microreactor demonstration programs. That would, as we think about it, sort of gets you into high-end of the mid-term EBITDA guidance – medium-term EBITDA guidance. And so, that's how we're thinking about it. Now, if we didn't hit on all of those four cylinders and we were succeeding on two or three of those, you might be able to get back up into that high-end of the guidance range with an acquisition or something like that.

So, that's how we're thinking about it internally.

**David S. Black**

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

A

And I would add to that, Ron, that, as we look at the NOG business, we showed and continue to show the growth of Columbia in that business. We do have two items out there that we're always aware of. In that, one is the FAS/CAS differential and the pension. The other thing that we don't talk a lot about is the reloads. The minutes reloads are going away, the forward reloads won't start again until a specific time in the future. The government doesn't really lay out a schedule there. And as I've said in the past, we do not talk a lot about those because the government likes to use those to fill our shops in times of need. But those are some impacts there as well as we go forward.

**Ronald J. Epstein**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. All right. Thank you very much.

**Rex D. Geveden**

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

A

Thanks, Ron.

**Operator:** As we have no further questions, this concludes our question-and-answer session. I would now like to turn the conference back over to Mark Kratz for any closing remarks.

**Mark Kratz**

*Vice President-Investor Relations, BWX Technologies, Inc.*

Thanks, Todd. That concludes today's conference call. If you have further questions, please call me at 980-365-4300. Thank you for joining us this morning. Bye.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.