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BWX Technologies, Inc. (BWXT)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the BWX Technologies First Quarter 2024 Earnings Conference Call. At this time, all participants are in 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, Kathleen. 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 first 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 and 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 reported the BWXT first quarter results. We delivered 6% organic revenue growth, 9% adjusted earnings per share growth, and remarkably good cash flow compared to historical seasonal patterns. Operating performance was in line with our expectations and we are reaffirming our full year guidance calling for mid-single-digit revenue and adjusted EBITDA growth, leading to adjusted earnings per share of $3.05 to $3.20.

Before I get into the segment discussion, I'd like to spend a few minutes on our recent announcement to expand the Cambridge plant, which is already North America's largest heavy nuclear equipment manufacturing facility. As we discussed on recent calls, demand in the commercial nuclear markets is robust, with new and ongoing life extensions of CANDU reactors in Canada and the international market, the potential for large newbuilds and the incipient demand for Small Modular Reactors. With this tangible future demand and our existing commercial nuclear backlog of over $700 million, we are moving forward with the project to increase the Cambridge facility footprint by 25% and upgrade it with advanced manufacture and equipment. Over the next two years, we will invest about $60 million with construction starting in the third quarter of this year and planned completion in mid-2026.

I would add that the expanded capacity enables more efficient execution of our existing backlog and room for new and exciting growth projects. While much smaller in scale, our intention is to get ahead of demand that we know is precipitating in this market, just as we did with naval propulsion microreactors and the medical business in recent years. This investment also enables our customers to signal supply chain strength as they compete for and secure more clean energy projects. In that vein, just last week, GE Vernova announced that BWXT is the first qualified company in the BWRX-300 supply chain group.

Our customers require products that meet extremely high quality standards with on-time delivery. By making meaningful investments now, we will be ready to satisfy the demand at the right time with market-leading credentials and capacity. Before making this investment, I'm personally engaged in discussions with our top customers and will be on the road visiting with others over the next couple months to underscore BWXT's commitment to the industry and our need to generate appropriate returns for the value we provide. As capacity inevitably tightens, BWXT will occupy an enviable position, given its world-class workforce, facilities and experiential qualifications.

Now, turning to a discussion of segment results and the market outlook. Government Operations continue to grow nicely with 6% organic revenue growth in the quarter. From a demand perspective, I would like to touch on a couple of key areas. First, at a high level, the long-delayed fiscal 2024 appropriations provided good funding across all our programs in Government Operations. Looking beyond this year, the President's fiscal year 2025 budget supports the secular themes, namely the great power competition and global decarbonization that underpin BWXT's long-term growth story.

The request prioritizes the Columbia-Class Submarine Program and provides substantial investment in modernization of the Submarine Industrial Base to sustain the shipbuilding plan and prepare for AUKUS. This was further supported with $3.3 billion in the Defense Supplemental Bill that was just signed by the President. The FY 2025 request supports clean energy, including investments in advanced nuclear technology development, which is important for growth in the micro and small modular reactor markets. More specifically, it fully funds NASA's and DARPA's DRACO project, the first demonstration of a nuclear thermal rocket engine in the space, a program in which BWXT is manufacturing the reactor hardware and complex coated fuel.

Second, there has been a lot of recent news flow around delays in Navy shipbuilding at US shipyards and changes in the procurement schedules reflected in the Navy's new 30-year shipbuilding plan. To address the shipbuilding delays, I will remind you that BWXT made early significant investments to ensure we could handle the workload associated with the serial ramp in Columbia-Class orders concurrent with two Virginia-Class orders per year and carrier work going through our facilities. For the most part, we have successfully navigated some of the labor and supply chain issues at the shipyards during and post-COVID. Accordingly, we are somewhat decoupled from the shipbuilding delays. That said, we remain vigilant and continue to work with our customers to ensure the stability of our execution schedules.

The updated 30-year shipbuilding plan released since we last spoke at Investor Day just over two months ago reflects pressures and tradeoffs the Navy sees in amid tighter times with varied priorities. While plans for the Virginia-Class are mixed, that is not particularly meaningful to BWXT, given our backlog of work. But the Navy's potential adjustment to the Ford-Class aircraft carrier schedule would be more impactful, because of the reactor scale and quantities. According to this new plan, CVN-82 will be procured in 2030 rather than in 2028, with advanced procurement starting in 2027 rather than 2026. For BWXT, this could mean that the carrier lull in 2024 and 2025 could be extended another year.

As we are doing in 2024, we will aim to offset this potentially extended lull with other programs. In any case, our visibility into the demand for naval propulsion reactors, components, and fuel work remains clear with steady procurement cadence of Virginia-Class submarines and serial production of Columbia-class submarines. Additionally, while still early, it is possible that Navy could use an extended carrier lull to get ahead on AUKUS-related work. BWXT has received funding for initial architectural and engineering facilitization work – workscope to support future increased workload demand, including potential AUKUS activity. While the cadence of orders on any specific ships could shift from year-to-year, we believe the 10-year compound growth rate for our naval propulsion business of 3% to 5% that we laid out in Investor Day remains achievable.

The nation is doubtlessly committed to its long-term goals for the nuclear fleet, and changes under various administrations or other Washington dynamics have not historically supplanted the national security imperative. Our microreactor projects for both land and sea are progressing nicely. Project Pele, the terrestrial microreactor we are developing with the Strategic Capabilities Office is in the procurement phase, and we are working alongside Idaho National Lab and the DOE to finalize the requirements for the authorization basis needed for licensing operation of the system. It is worth noting that, Pele received the full funding request in the fiscal 2024 Defense Bill, highlighting the government support for this critical technology, one that could ultimately serve as a strategic advantage due to increasing needs for stable power at remote military bases, and for applications including high-powered radars and the electrification of military tactical vehicles and weapons.

Similarly, while in its early stages, DRACO was ramping nicely and was a key contributor to revenue growth in the quarter. Beyond DRACO, we continue to build on our space franchise as the US and its allies increasingly invest in nuclear technologies to expand their presence and capabilities in this domain. We've recently entered a teaming agreement with Rolls-Royce through which we secured a UK Space Agency contract for nuclear space power missions. This teaming agreement provides for expanding our collaboration beyond space and into other advanced nuclear applications, including microreactor and small modular reactor fuel and component development.

While our microreactor strategy is primarily focused on defense applications, we continue to assess opportunities in the commercial markets. Our history of manufacturing nuclear reactors for the Navy, along with our dedicated manufacturing footprint and significant technical expertise position us well as commercial opportunities materialize. In special materials, we've assembled a deep portfolio based on our strengths and technical capabilities in radiochemical processing, handling, and accountability. Earlier this year, we announced a two-year extension of our downblending contract building on the success of 2023, when we captured a five-year uranium purification and conversion contract and a multiyear contract to recycle scrap material from the Y-12 National Security Complex into high-assay, low-enriched uranium.

In March, a BWXT-led joint venture was awarded the 10-year Hanford Integrated Tank Disposition Contract by the DOE. We were first awarded this contract in April 2023. After multiple protests by the incumbent, the DOE decided to re-award the contract to the BWXT-led joint venture. While it is again being protested, we delivered a superior proposal as evidenced by our being selected twice. Assuming it settles in our favor, we expect a contract transition later this year.

While we are encouraged by market demand, we also remain keenly focused on improving our operations. As I discussed before, we've made significant investments in our workforce and facilities. In the first quarter, we continued to realize benefits of our operational equipment effectiveness program, as we saw improved efficiency metrics across our key sites. By way of example, the team tasked with improving tube sheet drilling, the process that requires immense precision nearly doubled the efficiency of this work track. This is just one example of how our focus on OpEx is helping to drive profitability and offset inflationary impacts to the business.

Turning now to our Commercial Operations segment. Revenue in the segment grew 7% in the quarter and adjusted EBITDA was up 55%. Continuing a recent trend, growth was driven by increasing demand for medical isotopes and improved Medical EBITDA contribution. As I described earlier in the call, demand in the commercial nuclear power market is strong. At the end of January, Ontario Power Generation formally announced that it will proceed with life extension of the Pickering site Units 5 through 8. This is a substantial opportunity for BWXT that will drive backlog and revenue growth and provide another 10 years or more of visibility into our backlog of life extension work that began in that region in 2017.

In the SMR market, we are working with GE Hitachi on the reactor pressure vessel for the BWRX-300 project with OPG and anticipate a full release of the manufacturing award in the coming months. And our opportunity set remains enticing as utilities in North America and Europe consider building SMRs to meet growing electricity demand. The expansion at Cambridge that I described earlier improves our position as the preeminent supplier of large nuclear equipment in North America.

Turning to BWXT Medical. Revenue grew rapidly, building on the momentum from last year, with base diagnostics and contract drug manufacturing expansion. We continue to expect full year Medical revenue growth of about 25%. Demand for diagnostic and therapeutic isotopes is increasing, and rapid consolidation of the therapeutic space continued with AstraZeneca's announcement to acquire Fusion Pharmaceuticals, a key partner of BWXT and a leader in actinium-based drug development for up to $2.4 billion. We continue to see positive data points as various actinium- and lutetium-based radiopharmaceuticals advance through clinical trials, driving significant growth in the addressable market.

There are over 155 active clinical trials for drugs using these isotopes, some involving drugs that have already proven to be successful, for example, Novartis recently announced that it will seek approval for Pluvicto use in the pre-chemotherapy setting. Pluvicto is the market-leading lutetium-based prostate cancer drug with over $1 billion in annual sales and is currently only approved for post-chemotherapy settings. Approval would open a significantly larger patient set, highlighting the meaningful growth potential of this market. We are currently the only commercial supplier of non-carrier-added actinium, and are supporting multiple clinical trials and plan to ramp commercial sales of lutetium significantly next year as we finalize our Drug Master File with the FDA.

So, overall, we had a good quarter and are reaffirming our 2024 guidance. BWXT is at the forefront of the nuclear industry, occupying meaningful competitive positions in multiple markets. We are experiencing secular tailwinds over the long-term, and a portfolio that can withstand near-term demand and funding variability. We have a highly credentialed, experienced workforce, unique infrastructure and world-class capabilities in manufacturing, processing and services, and are enhancing these with organic investments. We are committed to providing our customers nuclear solutions to address critical missions in global security, clean energy, interventional oncology and other nuclear applications, positioning us well to achieve our medium-term financial targets.

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

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 of the earnings presentation. First quarter revenue was $604 million, up 6% organically on a consolidated basis, with similar growth in both segments. Adjusted EBITDA was $115 million, up 4% year-over-year as growth in Commercial Operations and lower corporate costs were partially offset by slightly lower Government Operations EBITDA. The lower corporate costs in the first quarter were mainly due to the timing of healthcare-related costs and are expected to return to a more normalized level over the next several quarters. We continue to see full year unallocated corporate EBITDA at flat to slightly lower than 2023. Adjusted earnings per share was $0.76, up 9% compared to $0.70 in the prior-year quarter.

As you can see in the EPS bridge on slide 5, operations contributed about $0.02 to the year-over-year growth with the remainder split between slightly higher pension and other income, lower interest expense, and a lower tax rate. For the full year, we expect the net impact of nonoperational items to be relatively neutral to adjusted EPS compared to 2023 as various items around timing of certain expenses, FX gains, and interest expense in the benefit of the first quarter will have offsets over the next three quarters. Our adjusted effective tax rate was 22.5% in the quarter due to higher excess tax benefits on stock compensation expense. Nonetheless, we still expect a full year tax rate of approximately 23.5%, meaning you could see a tax rate closer to that level over the next few quarters.

Free cash flow in the quarter was $3 million compared to a use of $43 million in the first quarter of 2023. Albeit modest, this was the first time we had positive free cash flow in the first quarter since becoming a standalone company, highlighting our focus on working capital management and CapEx discipline. CapEx in the quarter was $30 million, and we continue to expect full year CapEx to be flat to slightly down compared to 2023, inclusive of early spend on the Cambridge facility that Rex discussed earlier.

Moving now to the segment results on slide 6. In Government Operations, first quarter revenue was up 6% to $487 million, driven by higher naval nuclear component production, special materials, and microreactor volume that was partially offset by lower long lead material procurement. Despite higher revenue, first quarter adjusted EBITDA in the segment declined modestly to $100 million. This led to an EBITDA margin of 20.5% compared to 22.5% in the first quarter of 2023, which benefited from a particularly strong mix and timing of certain items, both of which worked against us this quarter.

For the full year of 2024, we continue to expect Government Operations EBITDA margins to be down only slightly from 21.1% in 2023 due to a few key dynamics. Those include grinding through onboarding inefficiencies and higher labor rates after growing our workforce by 10% last year, absorbing outsized revenue growth in cost plus microreactor projects and other new programs, and the absence of the missile-tube expense recovery in the fourth quarter of 2023. Providing quarterly margin guidance can be challenging, but at this juncture, our best view is that Government EBITDA margins in the second and third quarter will be similar to the 20.5% we reported in the first quarter, with a typical slight seasonal lift in the fourth quarter. Again, all of this leads us right in line with the Government Operations margin guidance we gave last quarter.

Turning to Commercial Operations. Revenue was up 7%, driven by increases in field service activity in our commercial nuclear business as well as robust BWXT Medical revenue growth, and partially offset by lower nuclear components and fuel handling volumes. Commercial Operations adjusted EBITDA was up about $5 million to $14 million. The increase was driven mainly by improved performance in Medical, which was partially offset by slightly lower contribution from commercial nuclear. This led to Commercial EBITDA margin of 11.9%, up from 8.2% last year. We continue to expect Commercial Operations growth of high-single-digits to low-double-digits in 2024, with higher EBITDA margins compared to 2023. Growth will be led by Medical, with commercial nuclear contributing as well, particularly in the second half of the year.

Turning now to guidance on slide 7. We are reaffirming our guidance for the four key metrics we provided last quarter. We project total company revenue and adjusted EBITDA growth in the mid-single-digits, leading to revenue of at least $2.6 billion and adjusted EBITDA of approximately $500 million. Included in this forecast is a year-over-year D&A step up of approximately $10 million, driven mostly by Government Operations, as the new equipment and capacity we have invested in for our naval propulsion business and microreactor projects are more fully utilized. As such, we're reaffirming our adjusted EPS guidance of $3.05 to $3.20.

As for the quarterly cadence of earnings, we expect slightly higher operating results on a sequential basis over the next two quarters and a seasonal pickup in the fourth quarter. On the sequential progression of nonoperating items, we expect the next three quarters to have higher net interest expense, slightly lower other income and a higher tax rate. In total, this should lead to EPS in the second and third quarters being relatively consistent with the first quarter, and then a seasonally stronger fourth quarter.

Lastly, we are maintaining our free cash flow guidance of $225 million to $250 million driven by EBITDA growth and improved working capital management. Capital expenditures are expected to be flat to slightly down, inclusive of early spending on the Cambridge plant expansion and other select growth investments across our businesses. As discussed at Investor Day, we are keenly focused on driving improved free cash flow for both working capital management and CapEx discipline as we work toward our medium-term target of 90% free cash flow conversion.

To sum it up, we had a good first quarter and are tracking to achieve our full year guidance. Our focus remains on capturing growth opportunities in our core businesses, innovating to pursue new markets, and driving operational excellence and financial performance. And with that, we look forward to taking your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Scott Deuschle from Deutsche Bank. Please go ahead.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good evening, guys.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Good evening, Scott.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.

Q

Robb, just to clarify, was the year-over-year margin pressure at Government Operations this quarter entirely from the onboarding inefficiencies and cost-plus mix or is there anything else in there that's dragging down the margins?

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

A

No. The year-over-year margin decline in the GO margin that you're referring to, the kind of 200 basis points, those were some of the pressures that we saw, Scott. But really – if you really look back to last year, you'll realize that that was the highest margin that we saw all year. So, that's the first thing to know. That quarter really enjoyed positives in a couple fashions. One was, it had – if you go back and look, it had a kind of onetime positive uplift from Tier 2 performance fees that normally we see over kind of the next couple of quarters.

We also saw a really good NOG volume, and I think that had to do with just sort of a relief in general as we've got through the workforce ramp up, that first quarter we really saw some positives that we talked about if you go back and look at the script. That was about half honestly, that high point. The second half of the step down was that kind of 100 basis point of the 200 basis points really came from less of inefficiencies in the way of describing mix, Scott, but more around just what's going on with some of our new projects. So, as we ramp up the U-Metal project and the initiatives within AT, our advanced technology group, specifically Pele and DRACO, all those businesses are just new for us, right, so they come in at a lower margin. So, again, about half of it came from that extraordinary performance that we saw last year, that was just kind of a real high point, and the other half came from really the ramping – what you could call a mix, the ramping of some of these new projects.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful, Robb. Then, Rex, I think this multiyear pricing negotiation was supposed to have finished-up last year, I want to say. So, it seems to be taking quite a bit longer than normal. Just curious if you can shed any light on what's driving that delay and whether you got a bridge contract to help you kind of get through until you get the actual multiyear done. Thank you.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.
A

Yeah. Sure, Scott. Of course, we completed the fuel part of that contract earlier. That one is in the bag. But yeah, the rest of it, we've been operating under a bridge contract for a period of time while we work out the negotiation details. I would say that the uncertainty around the FY 2024 appropriations, that combined with the defense supplemental created some uncertainty about what funding would be available. And so, I'd say, now that those are water under the bridge, we're in a position to get this across the finish line now. But your assertion is correct, right, we've been executing the workscope under that pricing agreement for a long time now through bridge contracts.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Thanks, guys.

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

Yeah. Thanks.

Operator: Your next question comes from the line of Bob Labick of CJS Securities. Please go ahead.

Robert James Labick
Analyst, CJS Securities, Inc.
Q

Thank you. Good afternoon.

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

Good afternoon.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.
A

Hey, Bob.

Robert James Labick
Analyst, CJS Securities, Inc.
Q

Hey. Rex, you mentioned the Drug Master File for lutetium. I was just wondering if you could give us a little more update on the process of seeking Canadian approval for the radiation of ytterbium up there in your Target Delivery System and everything, and then the other steps that it's going to take to get all the way through the DMF for lutetium.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.
A

For lutetium? Okay. So, for lutetium and those other active pharmaceutical ingredients, that's a pretty simple process, and what happens there is that the pharmaceutical companies that are planning to use that radioisotope will reference our product in their filing to the FDA. So, it's a simpler and cleaner process, and the timing for that is, we'll be in business on lutetium sometime next year, and I believe the same thing for ytterbium.

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

A

Yeah. That's right. Maybe just to give a little added color there. We're through the process of making targets, as you know, you need to get through that, and then ultimately, you place those in a source of a radiation. There's two sites that we're going to be looking to [ph] uranium (00:27:31) material, first, at the Missouri reactor, that's sort of the first stage, and then ultimately, as you mentioned, Bob, in our TDS at OPG. We built that, obviously, for tech, but that has capability around irradiating ytterbium.

So, we will have to through some work to get that credential with the regulators, the backend process, that's really OPG, and we don't see that as an impediment on there. And then, ultimately, we're also standing up a processing line for that irradiated material, Bob, as you know, to make active pharmaceutical ingredients. So, that's one more step. And so, we're rolling out the construction there. So, kind of moving along nicely as the market matures. Frankly, we're seeing a lot of different customers for both irradiated material as well as for API.

Robert James Labick
Analyst, CJS Securities, Inc.

Q

Okay. Super. And then, just sticking with isotopes, obviously, you have a lot going on this quarter. I didn't hear any update on the Moly-99. Any news from the FDA or when should we expect next information?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Yeah. Thanks Bob. Let me give maybe sort of a broad perspective on that product line and its development. I think, for products like this, you can think about sort of three big phases: the research and development phase, of course, which we exited a long time ago; the industrialization phase, which we are going through right now; and then, of course, commercialization phase, that's what everyone's been most interested in. And so, we're at the very tail end of industrializing that product line, and by the way, it's overlapping with commercialization of that product.

And so, when you think about the industrialization phase, the systems that we described to you and you've seen them, you put your eyes on them for the most part, but it's really exercising the Target Delivery System and then exercising our radiochemistry and radiopharmacy lines. There's other things, too, waste management systems and other such, but those are the big three. And by the way, let me pause for a second and remind you that, as Robb said about in his previous answer, we pivoted from a MURR irradiation campaign and went directly to the Target Delivery System, which did cost us some schedule, but it avoids having to do a second filing to get that product approved by the FDA. So, I think we're going to look in the rearview mirror and see that as a good decision.

So, where we are, as we have exercised our Target Delivery System, we've run targets through the reactor at Darlington in a high neutron flux environment and produce high activity targets, we have exercised all four of those target elevators. We had to – frankly, had to work out some kinks in that system, which we have done. So, it's working very well now. We have run those high activity targets through radiochem and radiopharm, and I would say that, we are doing the final tweaking on both of those systems to get the product exactly right. I would say that we are very well pleased with the product quality. It meets all the drug pharmacopoeia. And then, we're working through sort of the final items of our checklist with the FDA.

In the meantime, we've been focusing on the commercialization phase. There is quite a bit of enthusiasm in the market for this product. So, we've been doing some product testing by way of sending our generators to radiopharmacy networks and tagging our product with cold kit, tagging cold kits with our product. We're working through in pretty serious ways now supply agreements with the radiopharmacy networks and we're working on logistics details now, the shipping costs and how we distribute the product, in particular with which radiopharmacy. So, I'd say I'm super – well pleased with all that progress and it's – we're pushing through to the finish line.

Robert James Labick
Analyst, CJS Securities, Inc.
Q

Okay. Great update. Thank you.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.
A

Thank you.

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

Joshua Korn
Analyst, Barclays Capital, Inc.
Q

Hi. Good afternoon. Thanks for taking the question. It's actually Josh Korn on for David. I want to ask about the expansion of the Cambridge plant for the SMRs. If you could give us anything on when you might see some of that elevated demand start to come through and what the additional capacity might allow you to produce? Thanks.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.
A

Yeah. Sure, Josh. I'll start with that, and Robb may want to add. So, the thing that kind of tripped us over on making the decision on that capacity expansion was the formal announcement on Pickering. That's a very big project. We'll be making the steam generators, of which there are 48 for those four reactors, 12 per reactor. 48 steam generators, we're likely to be – we're very likely to manufacture the feeders for that, heat exchangers and other kinds of components. So, it's a lot. And when you look at what we have in that plant right now, we're making all the steam generators, replacement steam generators for the Bruce site. We're making feeders for the Bruce site. We're making heat exchangers for the Bruce site. We're doing feeders for the Darlington refurbishments. And now, we've got this activity on the Small Modular Reactor, the reactor pressure vessel, and we expect to receive firm orders for that in the next few months as we said on the call.

So, when you blend all that up, basically, if you walk through that plant, it is full. I mean, it is full. And so, we really need the capacity now, and our expectation is that, we'll see the follow-on orders for the other three reactor pressure vessels, and there's other content on that reactor, there's refueling systems and various other things for which we will compete. And so – and then, after that, the fast followers would be organizations like TVA, which is preparing the Clinch River Site for the same type of Small Modular Reactor. We hear of other utilities that are interested in that. And then, potential reactors that would go into Poland and other places that you've heard us talk about. So, the demand seems to be coming in kind of a wave and we've built out a capacity to be ready for that.

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

Yeah. I might just add that we've done a lot of business case. We kind of – we've been talking about this with you guys even in the past couple quarters and we really want to do a business case to say, can we make the numbers work on the expansion with this, essentially the book of business that we have, right. And then, leave the upside of being able to either serve international or US demand on the SMR side, that's sort of gravy to this. So, as Rex said, as you have the Darlington and OPG refurb kind of come to an end at some point, then you're ramping up on the Bruce Power, and then ultimately the Pickering, all that refurb work. And then, you have the GE Hitachi work of the first SMR and the likely follow-on, that really kind of makes you the business case, and then you want to have a tail of opportunity that ultimately pushes into a really good business case. And that's when I looked at international growth [indiscernible] (00:35:08) either refurbs, you're talking now more about greenfields. And so, all that can't be priced in to comment on it, but really will seem to be quite clever if that all comes through. So, we're pretty excited about the economics of that build out.

Joshua Korn
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. I'll stick to one.

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

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Good evening, Rex, Robb, Chase. Nice results. Hey. Maybe just to stay on that topic on Pickering, could you talk about – I think at your Investor Day, you highlighted that some of these refurbishment projects that the BWX kind of content was roughly about 10% of the total project cost. Is that – would that be similar for Pickering and when would we expect actually the ordering of the long lead materials to start?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

So, on Pickering, let me see. Peter, I don't know if I could give a rule of thumb on percentage of total project cost. But you can think of the opportunity as being similar in scale to the – I think a good comparison point would be the Bruce reactors, where we built the steam generators for all those, and that was a [ph] CAD 600 million, CAD 650 million (00:36:28) contract, I believe, at the time. So, maybe factor in a little bit of escalation in and a larger number of steam generators, then you can add the feeders to that and heat exchangers, that's sort of [ph] a CAD 1 billion (00:36:43) scale opportunity there, and I don't know the total project cost estimate from OPG, but it's – obviously, that's a sizable opportunity.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. And then, just when did the long lead materials kind of activity begin? Obviously, you're putting a CapEx in place in front of that.

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

A

Yeah. I'll take that one. Yeah. So, they're already talking about whether or not that long lead material could come in the near-term, and they're also looking at a schedule to get after a set of those in a more sequential basis to ultimately drive down the cost. So, I wouldn't be surprised if you get a more upfront [indiscernible] (00:37:25) with the customer and see how quickly they want to move, but I think in the near-term.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's helpful. And then, just regarding Romania, is there any updates there in terms of you mentioned the export financing is in place. When would we think of kind of order timing on that one?

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

A

Yeah. I can take that, too. It's still looking kind of a year or two out till when it will sizably hit our books. That keeps moving around, but they're moving forward – the OEM and EPC are moving forward. And so, we're starting to see schedules put out and starting to get our business lined up. So, I would say, it's sort of, call it, two to three years out for it to be meaningful for us.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you, Robb. Just lastly, on the CapEx part, Robb. So, it sounds like you had already kind of plan for this. So, CapEx doesn't seem like it goes up at all very much. Are we thinking about this kind of similar level for next year, just given this announcement or do you think this is kind of like a little bit of growth CapEx that you're putting in place?

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

A

Yeah. The way I'd describe it is, if you go back to Investor Day, right, we had a little bit over $100 million, $110 million, if you just look at 4% of sales, and then we're finishing off the microreactor projects from last year. So, that probably put us at the lower end, if you will, of our sort of guidance, right. The free cash flow range that I have out there includes a couple different scenarios. So, maybe on the upper end of free cash flow, you might say, you're going to have a $125 million, $130 million CapEx. And so, for this year, that could tilt us from a CapEx standpoint to, as we've got our Cambridge to be sort of at the upper end, but we fully expect to offset that with all the goodness that we're seeing in operating cash flow. So, that's what allows us to kind of remain in our range is that even if we spend $10 million to $20 million on this project this year, that was sort of contemplated and we can absorb that with all the good initiatives we have on operating cash flow. I think it's a tad too early to talk when you say last year...

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you. Thanks so much, Robb.

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

A

Yeah. No problem. Just a comment about next year, I think it's a little far out, but I don't see any major changes in this project. It can live within that normal budget.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Appreciate it. Thanks, Robb.

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

A

Yeah.

Operator: Your next question comes from the line of Pete Skibitski of Alembic Global. Please go ahead.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Yeah. Good evening, guys. Just one for me. Rex, you talked earlier in your opening comments about the 2024 baseline budget and supplementals approved in I think there was $3.3 billion in the SIB funding. I guess, A, does any of that SIB money go to you guys at all or basically you're just doing okay and you're already [ph] facilitized (00:40:19), so it goes to other suppliers? And then, anything or any changes at all between the 2024 budgets and the new 2025 budgets at NASA or DOE, with anything you guys are interested in there? Thanks.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Let's say, here on the [ph] submarine base industrial funding (00:40:35), it is for the broad submarine industrial base, which could include us, Pete, and that would, of course, come through our customer. I'd say there's more to come on that as to what, if any, of that would get to us. And would you repeat the second question again for me?

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Yeah. Just in the 2025, [ph] fit ups (00:40:54) that got released with regard to NASA and DOE, I was just wondering if there's anything kind of new or interesting nuclear-wise that you saw in those budgets, the plans are?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Oh, new and interesting, nuclear wise. Probably not, but I would say that, we're continuing to see sustained and very good support for the programs of record, like DRACO and Pele, and hopefully, that will continue.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Got it. Thanks, guys.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Thanks, Pete.

Operator: Your next question comes from the line of Michael Ciarmoli from Truist. Please go ahead.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Hey. Good evening, guys. Thanks for taking the question. Nice results. Maybe Rex, just back to the multiyear pricing, is that – I mean, you mentioned kind of maybe a delay, I don't know if that's the right word, but just what was going on with the fiscal 2024-2025 budget, is the Ford CVN sort of schedule a factor in kind of what's happening with that new multiyear contract?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Yeah. I think that when we're working through those agreements with our customer, Mike, it's everything, right. So, it's what is the shipbuilding schedule, what is the budget available, how many spares do they want to order, what's going on with escalation, so that blends up to a pretty complex thing, particularly right now with labor and materials inflationary pressure. So, it's sorting through that, and by the way, certainly not unusual for other defense contractors to be on bridge contracts to negotiate through these things. So, it's all of that. It's all the above. It was the FY 2025 – 2024 appropriation, it was the supplemental, and it's the shipbuilding schedule and the President's budget request, all blended up into what do we have here and we'll certainly sort it out.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Got it. Got it. And then, Robb, just on the – back to the Medical and the Tc-99, any sort of change in your thought process? I mean, I guess directionally, maybe it sounds like the Tc-99 approval is sliding to the right a little bit, but still comfortable with the trajectory of 2024 and 2025 revenues there for overall Medical pushing to $200 million, and I guess getting that margin into the mid-30s.

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

A

Yeah. No. I don't think there is any change really overall. Again, we don't anticipate any tech really moving the needle this year in 2024. We talked about that last quarter. We're not really seeing – we're going to try to get Commercial, but the actual impact will be minor in the near-term. Ultimately, as we laid out that target, we said that it would really come from a couple different areas, our core portfolio, the therapeutic portfolio, and then the last area is the tech portfolio. And if you move through those and you really think about it, there's been some pretty good upside on the [indiscernible] (00:44:01).

I think therapeutics is, at least from a market standpoint, surprising. We need to get some contracts. We talked about lutetium. We're the only commercial supplier in actinium. So, I wouldn't be surprised if we get [indiscernible] (00:44:12) the upside there. And then, tech, for all the fits and starts that we've had, is actually lining up pretty nicely. The market is ready for a third player. And so, I wouldn't be surprised if we nail that one as well. So, the target overall for, call it, 2025, 2026 year to have that level of $200 million in revenue still seems readily achievable.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Got it. And then, just last one for me. Just Robb, given your background, what were your thoughts when you saw Fusion kind of pre-revenue pre-EBITDA getting acquired for $2 billion knowing what you guys have in terms of your Medical business?

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

A

Yeah. I thought it was a solid acquisition, I think, for the acquirer. We're working very closely – as you know, with a press release that we're working closely with a couple key companies, one of them is Fusion, and we've been constantly impressed with their products and their knowledge that understanding how to get supply of the actinium, which is what their drug is really based on, is key. And if you read the press release from the acquirer, they're really focused on the fact that they could bring that to bear to the parent company. So, it's not only the products they have, but the knowledge of the supply chain, and we're a partner there. So, in an indirect way, they're affirming our strategy that that's really a key aspect to what makes that company solid. I think I've always been transparent that we don't sell – we're not in the drug business. So, those valuations really are multiples of revenue, if you will, and we're more of a pick-and-shovel player, but we're a...

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Yeah.

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

A

...very solid part of the ecosystem that I think really will warrant a valuation, while we bring our whole business plan to bear, and I know everybody has been patient with that, but if we hit these targets, I think the valuation of that entity could be quite compelling.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Okay. Cool. Good stuff. Thanks, guys.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Thanks, Michael.

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

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

Hey. Yeah. Good evening, guys. Just maybe a quick one. When you look at the cadence for submarine production, it seems like Virginia-Class has kind of been, I don't know, slowed down, given what the industry can do. And what impact does that have on you? I mean, is it – are you kind of directly connected to that or you're delivering your stuff separately, I mean, how should we think about that?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Yeah. Hey, Ron. I just touched on that in the script a little bit. I think you can think of us as somewhat decoupled from the shipyards. I mean, first off, the shipyards, HII and GD are not our customers. We sell that product to naval reactors and we sell it to them on their schedule. And then, that's government furnished to the shipyards. So, we're a little bit decoupled from that. And so, I think that's a way to think about it. Another aspect here and maybe three things to think about, another aspect to consider here is that, look, this is the President's budget request and that's the shipbuilding schedule, but it doesn't mean that much until the authorizers and appropriators are done enacting the budgets for 2025 and beyond. So, I think, it's certainly very early innings in that game of Virginia production.

We've heard our peer companies out there, HII and others talking about how important it is to keep that production rate funding going, and obviously, very strong bilateral support for the Virginia program. So, I'd say that one is not done yet. The third thing I would say is that the industrial base ultimately and BWXT ultimately has to get to a higher production rate in order to meet the needs for AUKUS. And so, this Virginia rate needs to go to 2.3 for a decade or more. And so, we've got to build the industrial capacity and the workforce capability to do that. And so, slowing down doesn't make any sense to me. And so, we'll see what the appropriators do, but it doesn't worry me all that much, given the depth of our backlog and given the strategic priority that the Virginia represents.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

Got it. Got it. Yeah. That makes sense. And then, I think you spoke to this some, but can you just speak to, I mean, what's going on with labor for you all? I mean, labor has been a challenge for – it seems like everybody across the space. I mean, has it been any different for you? I mean, retaining people, hiring people, and potentially the people that you're going to need to bring onboard to eventually ramp up to meet the demand for the Navy?

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

Yeah. I'd say maybe there's a couple of things I would say about that. And I talked about this a lot in prior calls and that is that we've reengineered our talent acquisition process under Bob Duffy's leadership, who runs human capital force over the last, let's call it, a year-and-a-half. And the fruits of that were we hired 10% of our total workforce last year as we said in the script. And so, we – there were two things there, Ron, we're able to achieve, largely achieve our growth needs and do so in an environment where attrition post-COVID is higher than historically it has been. So, I'd say that we sort of won on both sides of that one.

All that said it's a tough environment for labor, right. I think we're reindustrializing the US economy and certainly trying to ramp up submarine production, and that's not an easy thing to do and it's hard to get your hands on those scarce resources. And so, when Robb talked about the pressure that we're feeling on – the pressure that we're getting in our margins, it has to do with onboarding that many people and that amount of churn. Our efficiencies are good. We're making this product with the profit that we thought we would, but you've got a lot of people sitting in training classes and you've got a lot of people churning through overhead because of that. So, I want to say that we've done a really good job of dealing with, I think, is a very challenging environment and we just have to keep swinging the axe at this thing. Robb, do you want to add anything to that?

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

Got it.

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

A

No. I think you said it. We're absorbing. We got ahead of the industry, I think, on CapEx to build the capacity and we try to do the same thing last year, really swarm the issue of workforce. And so, we got ahead of it, and others are also in our industry, but that's sort of how BWXT goes about it, we try to just address the problem quickly. And now, we're churning through – as Rex said, our utilization at our top component sites are off almost 400 basis points year-over-year, but we're chewing through that and we will all year. So, we're sticking with our guidance, which shows that we can take all that workforce in and still keep moving. So, I think we're going to be on the other side of this and be quite strong.

Ronald J. Epstein
Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you, guys.

Rex D. Geveden
President, Chief Executive Officer & Director, BWX Technologies, Inc.

A

You're welcome, Ron.

Operator: That concludes our Q&A session. I will now turn the conference back over to Chase Jacobson for closing remarks.

Chase Jacobson
Vice President-Investor Relations, BWX Technologies, Inc.

Thanks, everybody, for joining us today. We will be speaking with many of you in the coming days and seeing many of you over the coming months. If you have any further questions, you can feel free to reach out at investors@bwxt.com. Thanks.

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