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BWX Technologies, Inc. (BWXT)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to BWX Technologies Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the company's prepared remarks, we will conduct a question-and-answer session and instructions will be given at that time.

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

Chase Jacobson

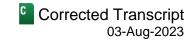
Vice President-Investor Relations, BWX Technologies, Inc.

Thank you, Brianna. 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 second quarter 2023 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.

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Rex D. Geveden

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

Thank you, Chase, and good evening to everyone. Earlier today, we reported solid second quarter results that were slightly ahead of our expectations, highlighted by robust double-digit organic revenue growth, good execution and improved free cash flow. Given our strong performance in the first half of the year, coupled with favorable demand trends, we now expect high-single digit revenue growth and are raising the low end of our 2023 adjusted EPS guidance by \$0.05 to \$2.85 to \$3.

Before I dive into the highlights of the quarter, I would like to provide a State of the Union on what we are seeing in our key nuclear end markets. There are several underlying secular themes supported by the increasing use of nuclear solutions in our global security, clean energy and nuclear medicine end markets. And given BWXT's extensive experience in the industry, our exceptional nuclear design capabilities, robust manufacturing footprint and vertical scale, we are very well-positioned to benefit from the growing demand that we see in the years ahead.

The first of two emergent large themes driving heightened interest in nuclear is the great power competition. This drives the global security market, but is becoming an increasingly important stimulant in the commercial nuclear power market as well. Before explaining that, let me note that the US government's strategy to bulk up on our strategic force capabilities, including a recapitalization of the US naval nuclear fleet, is in direct response to this geopolitical reality. We have supported this strategy with investment in BWXT's Navy plans to enable a greater level of naval nuclear shipbuilding, especially in the second half of this decade and beyond, something the industry required given its aging infrastructure.

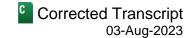
The current 30-year shipbuilding plan calls for 10 years of serial procurement of Columbia Class submarines beginning in 2026, and the potential for the Ford Class aircraft carrier to move to four-year centers beginning in 2028. This is on top of consistent procurement of Virginia Class submarines and a new demand for submarines from Australia as part of the Australia, UK, US trilateral security agreement known as AUKUS.

Beyond our core naval propulsion business, we are seeing a precipitation of demand for advanced nuclear reactors by various government agencies looking for innovative clean power and propulsion solutions in space and other domains. These systems can improve the security posture of the US, especially in emergency or warfighting scenarios. Last year, BWXT was awarded separate contracts by the Department of Defense's Strategic Capabilities Office to build a prototype microreactor called Project Pele and to manufacture the TRISO fuel to power that reactor. The ultimate objective of this program is to supply high density off-grid power to military bases, among other applications. We are tracking well on this project and are seeing new interest from various defense agencies who view this as a potent and differentiated capability.

Just this quarter, I joined other BWXT executives in an engagement with a combatant command to discuss how Pele can be deployed in an off-grid application to eliminate vulnerabilities related to the diesel and broader supply chain and provide reliable, high density power for base load radars, missile defense systems, and electric transportation fleets.

Of Note, Project Pele and a related [ph] rider (00:04:57) to support a study about a potential microreactor in [ph] Guam (00:05:02) received strong bipartisan support and the Senate Armed Service Committee's markup of the fiscal 2024 National Defense Authorization Act. And just last week, we were selected along with our prime partner, Lockheed Martin, for the DRACO project, the first demonstration of a nuclear thermal rocket engine in space. With this contract expected to be valued at over \$200 million, we will have the government's cornerstone

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nuclear fuel and reactor programs in our portfolio, serving the terrestrial and space domains to complement our Navy franchise.

Beyond national security applications, the commercial markets are pivoting to nuclear energy solutions to meet future power demand and to improve their energy security posture. Notably, nations in Western Europe, which won't stop their investment in nuclear, are now announcing plans to begin new large reactor buildouts and/or construction of multi-unit small modular reactor plants. We have exposure to these opportunities through our capabilities in fuel and fuel handling, component manufacturing, field services and design knowledge. We are anticipating potential newbuilds in Canada and in other interesting markets, including the US, UK, Poland, Romania, South Korea and others.

We possess the largest operating nuclear qualified manufacturing site in North America, where we serve a range of projects, including SMR development, plant life extensions and operation support for the installed nuclear base. Our scope on SMRs can range from around \$50 million to over \$100 million per reactor. Importantly, our role as a merchant supplier serves as a vital resource to reactor designers that are in need of well-established and qualified manufacturing and supply chain management.

On this note, yesterday we announced that TerraPower selected BWXT to design the intermediate heat exchanger for its Natrium demonstration project in Wyoming, and they highlighted our role as a designer and fabricator as key to the project's planned achievements. As opportunities like this develop with new and existing customers, we are in the early days of assessing our capacity to satisfy this burgeoning demand, to take an even larger leadership role in the commercial nuclear market.

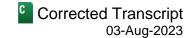
This transitions well into the second major theme driving nuclear interest, and that is decarbonization of the grid. As technologies advance, nuclear is increasingly seen as the obvious and preferred source for reliable baseload clean energy production. Last month, Ontario Power Generation announced it is planning for three additional BWRX-300 small modular rectors at the Darlington site in addition to the one planned for completion by the end of the decade. Also in Canada, Bruce Power launched a study to assess the feasibility of adding nearly 5 gigawatts of large scale nuclear power as the Ontario government seeks to double the scale of the grid by 2050 to meet projected demand.

There is growing demand outside of Canada as well. Earlier in the year, the United States Department of Energy embodied utilities to apply for up to \$6 billion in civil nuclear tax credits. Some of the largest domestic utilities like the Tennessee Valley Authority, as well as large industrial companies around the world, are considering new nuclear investment. In Europe, the UK government recently opened a competition to develop SMRs as it seeks to increase its nuclear power generation capacity to 24 gigawatts by 2050 from approximately 6.5 gigawatts today. And many other countries and large utilities in Europe are signaling interest in nuclear as well.

With the growing demand for nuclear power, we are seeing new technologies for SMRs and microreactors come to the market from both established and start-up nuclear companies. We view this as positive for the industry overall and believe that our full suite of nuclear solutions, including reactor design, fuel fabrication, manufacturing and services position us well to maintain a leading market position in commercial nuclear power. We feel even more convinced that our long view and persistent investments in nuclear, even in uncertain times, have positioned BWXT to capitalize on the significant upcycle we anticipate in these compelling markets.

To be clear, we do intend to continue to drive our business through innovation and following a super cycle of investment in our infrastructure, the past few years, in particular in naval reactors and nuclear medicine manufacturing, we are positioned to continue growing at healthy organic rates with much more modest CapEx

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investments. By layering in incremental CapEx to support growing demand for microreactors or SMR component manufacturing capacity or even novel automated or Al-driven naval manufacturing equipment, we expect to balance earnings growth alongside free cash flow and achievement of high returns on invested capital.

Our growth investments also extend to human capital. Over the last year, we've made multiple additions to our executive leadership team and are continuing to add to our operational and functional support teams to ensure we have superior talent necessary to address the strong growth we see ahead.

Turning back to the quarter, our second quarter results were ahead of expectations. The quarter was boosted by robust 11% organic growth, leading to a record level of second quarter revenues. Despite this growth and as expected, our adjusted EBITDA and earnings per share declined year-over-year due to the margin impacts of onboarding new team members, operational improvement investments, as well as less favorable product mix, and the impact of lower pension income and higher interest expense on earnings per share.

Turning to our segments, in Government Operations, we reached an important milestone during the quarter. I am pleased to report that we shipped the final missile tube under our Block II contract, originally signed in 2017. While this business line has had its challenges, I am extremely proud of our team's dedication and hard work to complete this project and deliver a superb product to our Navy customer. We are working with our partners to recover costs associated with this contract and expect a resolution giving our steadfast support to the Navy over the course of this challenging product evolution.

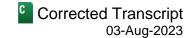
As we discussed last quarter, we expected some near-term noise in our Government Operations' margin performance quarter to quarter as a streamlined hiring and training processes that we implemented over the last year began to kick in and [ph] we had a greater, less experienced (00:11:50) workforce. Because of this, along with the timing of work across our portfolio and less favorable product mix, mainly related to a strong increase in advanced technologies, which has mostly cost reimbursable contracts, we experienced some transient margin pressure in the second quarter. Despite that, our businesses performed well and we expect to see improving margins in the third and fourth quarters. Robb will provide more detail during his remarks.

In April, a BWXT-led joint venture was awarded the 10-year Hanford Integrated Tanks Disposition contract by the DOE because of our superior bid. After going through a protest process with the DOJ, the contract decision is now back in the hands of the DOE, and there are a variety of options it can take in deciding the best path forward. We will provide an update on this process as appropriate, but at this point, do not expect a [ph] contract to (00:12:46) transition at the site occurring until at least early 2024. Other projects in our Technical Services Group are performing well and we are seeking multiple new award opportunities such as the Portsmouth/Paducah operations and site mission support and the Pantex management and operations contract, among others.

Moving on to Commercial Operations, our core nuclear power business performed well during the quarter, driven by ongoing refurbishment and life extension projects on a number of reactors in the Canadian fleet. As I mentioned earlier, the Canadian government and large Canadian utilities are committed not only to maintaining and extending the lives of their existing fleet of nuclear power plants, but also to adding new nuclear capacity with the installation of SMRs and potentially, new large plants as well.

At BWXT Medical, we had another solid quarter with over 20% organic revenue growth and a first quarter of positive EBITDA. We face the nuclear medicine market as a full service player in radioisotopes with a base of diagnostic isotopes, additional layers of therapeutic isotopes and contract drug manufacturing. We are enjoying strong demand for diagnostic isotopes such [ph] as strong team in germanium (00:14:00) that are used in cardiac and cancer image studies, as well as in therapeutics, where we expect significant growth opportunities in the

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manufacturing of active pharmaceutical ingredients like with visium and actinium that support innovators and pharmaceutical companies engaged in late stage clinical trials of products that will change the face of cancer therapy.

As it relates to our tc-99 product deployment, we received formal communication from the FDA in June with questions and data requests required for final approval. With no significant surprises in that communication and in follow-up discussions, we now have formal consent to pivot directly to our target delivery system at the OPG Darlington site. This will enable us to achieve commercialization of the full product suite, including large generators in 2024. With a generator product that's essentially identical or superior to those on the market today, we intend to stabilize the nuclear medicine ecosystem with this critical and foundational diagnostic device used in thousands of procedures every year.

To sum it up, we had a good first half of the year with strong organic revenue growth, good execution, solid cash flow, and a number of important wins across our businesses. Our end markets are gaining momentum and we are investing in our facilities and our people to ensure that we are positioned to attack the most promising opportunities in these extremely compelling nuclear markets.

Let me now turn it over to Robb to discuss the second quarter financial results in more detail and to discuss our updated 2023 guidance.

Robb A. LeMasters

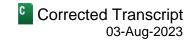
Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.

Thanks, Rex, and good evening, everyone. I'll start with some total company financial highlights on slide four of the earnings presentation. Second quarter revenue was up 11% on a consolidated basis, with government operations up 13% and commercial operations up 2%. This growth led to robust second quarter revenue of \$612 million. Despite our strong revenue growth, second quarter adjusted EBITDA was down year-over-year as expected. Adjusted EBITDA was \$107 million, down 7% year-over-year as higher revenue was offset by lower margins in both segments due to onboarding inefficiencies, operational improvement investments, and less favorable product and services mix in both Government Operations and commercial power, as well as higher corporate costs.

Adjusted earnings per share was \$0.65 compared to \$0.82 in the prior year quarter. As you can see in the EPS bridge on slide five, the year-over-year decline was dominated by non-operational items, including lower pension income and higher interest expense. Despite lower net income, free cash flow improved to \$41 million compared to \$35 million in the second quarter of 2022, driven by improved working capital management and slightly lower capital expenditures. Our capital expenditures of roughly \$40 million in the quarter were down modestly compared to last year and consisted of maintenance CapEx and select growth initiatives. Our target for the next couple of years is to have capital expenditures consist mostly of maintenance spending, with additional investments to support specific projects or visible growth opportunities, just as the case will be in 2023.

We previously signaled \$125 million to account for maintenance CapEx and a top-up to finish the build out of our BWXT Innovation campus in Lynchburg, Virginia, that we announced late last year and set up this year. That campus will be the home of our terrestrial microreactor team for the foreseeable future. We are doing our final estimates for the time phasing of CapEx related to Project DRACO that we announced just last week between 2023 and 2024. But as we have said in the past, this space microreactor build out will be inside of what we spend for Pele. In any instance, we are confident that our efforts around working capital management and its effect on operating cash flow will allow us to absorb any potentially higher 2023 CapEx and still achieve our goal of \$200 million in free cash flow this year.

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Moving now to the segment results on slide six. In Government Operations, second quarter revenue was up 13% to \$492 million, a very strong second quarter level driven by higher naval nuclear component production and microreactor volume that was partially offset by lower long lead material procurement. Second quarter adjusted EBITDA in the segment was \$96 million, essentially flat with last year as higher revenue was offset by less favorable mix and the new hiring inefficiencies Rex discussed.

In Commercial Operations, revenue was up 2%, driven by higher increased field service activity in our commercial nuclear business, as well as higher BWXT Medical revenue and mitigated by lower fuel fabrication and nuclear component manufacturing volume. Second quarter Commercial Operations' adjusted EBITDA was down approximately \$2 million as revenue was skewed toward field service refurbishment activity and less outage work compared to last year. This was partially offset by improved profitability in Medical and by ongoing cost controls in the business.

Turning now to guidance on slide seven, following a strong first half and with more clarity into the remainder of the year, we are raising the lower end of our 2023 adjusted EPS guidance. We project revenue of over \$2.4 billion, up high-single digits organically compared to 2022 versus our initial target of mid-to-high single-digit annual growth. This industry-leading growth is driven by high-single-digit growth in Government and mid-single-digit growth in Commercial. While we expect modest EBITDA margin improvement at the segment level, this is somewhat offset by slightly higher corporate expense. Our previous guidance was for corporate EBITDA expense to be roughly in line with the 2019 to 2021 historical average of about \$11 million. We will still be in the same ZIP Code, but may push closer to the higher end of the \$10 million to \$15 million range we had previously forecasted. This increase is driven by human capital investment as we enter our next phase of growth and focus on driving operational performance throughout the organization.

Overall, we continue to expect adjusted EBITDA margins of approximately 20%, leading to adjusted EBITDA of about \$475 million, up high-single digits compared to 2022, driven almost entirely by organic growth consistent with our prior guidance. Adjusted EBITDA growth in 2023 is expected to be offset by non-operational items such as lower pension income and higher interest expense. As such, we expect adjusted pre-tax income of around \$350 million and adjusted EPS in the range of \$2.85 to \$3 per share. The increase in the lower end of the range is due to our solid first half results, good visibility into the second half, and slightly lower interest expense. This is offset by the modest bump in corporate expenses and the timing of the DRACO and Hanford awards.

As we look to the second half of the year, I want to identify a few details related to the quarterly cadence of earnings. While we reach the low point for Government EBITDA margin in Q2, we expect another quarter of lower-than-normal EBITDA margins in Q3. Over the last couple of years, government EBITDA margins have averaged approximately 21.5%. We expect Q3 to be somewhere between the Q2 level and that average, with a significant improvement to near all-time high EBITDA margins in Q4.

In Q3, Government Operations margins will steadily increase as we work through the impacts of onboarding inefficiencies, as well as the impacts of project mix and timing on newer programs. Also, as a reminder, Q3 is typically one of the lower revenue quarters in our Commercial power business as there are fewer outages during the peak summer months. In Q4, we expect a significant sequential increase in volume, fewer onboarding inefficiencies, and the potential to recognize a recovery on non-nuclear component.

Overall, BWXT is growing across the portfolio and is building on our strategic successes and competitive positioning, enabling another strong year of operational growth and positioning us to accelerate and achieve our medium-term financial targets. Not only will we remain focused on growth, but also on building a stable and

enduring management infrastructure with mature processes. This will add better predictability and free cash flow conversion that will provide tangible and sustainable shareholder value over time.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Your first question comes from Pete Skibitski with Alembic Global. Your line is now open.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Guys, Rex, a lot going on, that's for sure. Maybe we could start by talking about labor. I don't know if you guys can quantify the amount of net hiring that took place in the second quarter. It seemed like that enabled the growth at Government and maybe what the net hiring goals are for the second half?

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

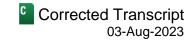
Yeah, I'll put a little color on that, Pete. I'm really super pleased with what's going on with hiring right now. Our Chief Administrative Officer, Bob Duffy, and his human capital team basically completely redesigned the talent acquisition process and did kind of a Kaizen approach to that and took out days and weeks and even months in that process. And so the onboarding process, the hiring process is really streamlined and really functioning.

And at the same time, if you look at our attrition rate, we've gone through six quarters of sequential improvement of trailing 12 months attrition, and now we're trending back down toward our historical averages, which are around mid-single-digit voluntary attrition. So it's trending the right way. The hiring is accelerating and the attrition is decelerating, so we're making great strides there. And that's really giving us - there's sort of two factors in the business, but one is that's giving us the capacity for more volume, which is good for the business, but it's also creating some inefficiencies on the front end because of training and indirect charges related to that. So sort of two impacts on the business, but altogether super well-pleased. We've got more work to do, but we're climbing the hill really fast right now and I like where we are. And maybe, Robb, you could offer a little bit more color on that.

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

Yeah. No, thanks for the question. Yes, I'm tracking the data pretty closely. We've seen, as Rex said, as we talked about last quarter, we had that [ph] bulge (00:26:00) pending starts and we got those through the funnel. And actually as I tracked it over the course of the months, every single month during the quarter, we sort of built a larger number of net hires into the company. Ultimately, when I looked at the whole quarter, we're running at about a 2 times the first quarter number in terms of total net hires, so that's having a really good impact. We don't have the July data in front of us for the full month yet, but I'm sure that's shaping up nicely, too. So people are coming through. It's also, as Rex said, having a noticeable impact on our utilization. So when I look at the data here on a utilization front, some of our key sites where we're taking in a lot of people, we're seeing a year-overyear impact, as we expected and that's what's causing a strain. So in three of our major sites in our core naval business, we're seeing almost a [ph] 200-plus (00:26:57) decline year-over-year in utilization. And so as we ramp those people up, that utilization come through.

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The third area is just to highlight that we're trying to do increased data runs on is trying to figure out how for the remainder of the year, as you said, we feather those people in nicely. So we're looking at different sites and we now have so much more data to try to understand how direct versus indirect come into the business, how we can layer those in even better and how we can really know when people are going to hit the sites and be able to train them up quickly. So coming through, as we expected and having the strain in Q2 that we expected and ultimately we'll see a little step up in Q3 in terms of margin. And ultimately, I think we'll work through the hardest part and be fully primed by Q4.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Okay. Well, it's great to hear the pretty active management there and the progress, guys. Before I get back in queue, let's just talk about DRACO, if we can. I guess, first of all, Rex, this is an OTA contract, right? So it can't be protested, maybe you can validate that and maybe give us a sense of whether or not it was booked in the second quarter or it'll go into backlog in the third quarter. And my understanding – it sounds like it's roughly a three-year contract, so will you book revenue on it this year? And did that give any sort of upward push to guidance this year that was offset elsewhere? Just some color about all that will be great. Thank you.

Rex D. Geveden

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

Yeah. Well, lots to unpack there, Pete. Yeah, exciting win for us. That was booked in the third quarter, so we'll start to see revenue to hit the book in the second and third quarter. We would see the bulk of the revenues on that program going through 2024 and 2025 and bleeding into 2026 and 2027 as we fly that mission, but the bulk of it in the next couple of years after this. Correct that that contracting mechanism is done through an other transactional authority, an OTA. So it's not subject to federal acquisition regulations in that standard format. So there's no appeal path for it, so that's a win and it's an exciting one. As I said in the script back there, we've won the flagship program for the space domain. And then last year with Pele, the flagship – government flagship program for the terrestrial domain to add that to the Navy franchise and that's a pretty important – it's a important set of projects for us, particularly from the competitive context. So really happy with that win and excited to see that program go forward.

Robb A. LeMasters

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

Yeah. Just a little bit of information on specific 2023 and 2024 and 2025 and 2026, the way I'm looking at that that's almost about a three-year term for that contract. And as we mentioned, that's about a \$200 million. So if you just think about that ratably, it's going to take a while even this year to kind of get it ramping. So maybe think about kind of one quarter of one year hitting kind of this maybe a little bit more as we kind of ramp into the second half of 2023. But it's going to be only a little bite of it. And then we kind of hit a full, call it, a third of that contract next year in 2024 and 2025, and then a little bit as it tapers off in 2026.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

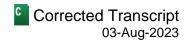
Okay. Thanks for the color, guys and congrats.

Rex D. Geveden

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

Yeah, thanks.

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Robb A. LeMasters

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

Thanks.

Operator: Your next question comes from Bob Labick with CJS Securities. Your line is now open.

Robert James Labick

Analyst, CJS Securities, Inc.

Good afternoon. Thanks for taking our questions and congratulations on the DRACO win and also on the FDA Darlington news you just mentioned.

Rex D. Geveden

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

Thank you, Bob.

Robert James Labick

Analyst, CJS Securities, Inc.

Sure. So I just wanted to start with that, with the Darlington irradiation news, could you give us a sense of how this impacts the timeframe for potential approval? What additional information they've given you? And then, once – assuming approval goes forward, just describe how that impact – how Darlington generator compares to existing and – versus MURR, which seems like you can [ph] leapfrog past (00:31:06) right now.

Rex D. Geveden

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

Yeah, Bob, it was pretty exciting and an interesting development for us because – I mean, there's certain questions about the final product such as what is the – what are the radio impurities that exist in the target after you irradiate, that you really can't answer unless you're in your final solution, which is, in our case, the Darlington reactor using our target delivery system. And so I think, we've been trying to – we've been urging the FDA to take that view that as we go through this last target irradiation campaign, it just doesn't make sense to go back through MURR. So we've gotten formal consent to go and pivot the Darlington, which means that we can offer that – as you're well aware, that full suite of Tc-99 generator options all the way up – from the small sizes all the way up to the very largest sizes that are on the market today. And whereas with MURR, we had a pretty modest offering of small, small [indiscernible] (00:32:06) generators. So it's extremely important to us.

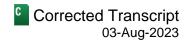
And I think on time line, I don't want to get into the guessing game on the regulatory approval process. But suffice it to say, we have very high confidence of getting into the market in 2024 with that full suite of products and so quite a positive development for us.

Robert James Labick

Analyst, CJS Securities, Inc.

Absolutely. No. Congratulations. That is exciting. And I'll – just a brief follow-up just so [indiscernible] (00:32:35) next quarter on it. Are there any more milestones until kind of approval or any other events? Or are we just playing that waiting game over the next few months, quarters until the FDA – you guys will go back and forth with them, but will there be any other announcements or is that kind of the next announcement over X period of time?

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Rex D. Geveden

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

Yeah, not anticipating any milestones to be published. We certainly do need to go through – back through our campaign to irradiate the material and get that delivered to the FDA. But really no milestones I think we'll be calling out.

Robert James Labick

Analyst, CJS Securities, Inc.

Okay. Super. Well, congratulations again. Thank you.

Robb A. LeMasters

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

Thanks.

Rex D. Geveden

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

Yeah. Thank you. Thank you, Bob.

Operator: Your next question comes from Peter Arment with Baird. Your line is now open.

Peter J. Arment

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

Yeah. Good afternoon, Rex, Rob, Chase. Rex, thanks for all the color on the SMR kind of updates. I was curious though, when you made some comments about not needing a lot of capacity additions, it just seems like there's a lot of things coming your way on the SMR front and small microreactors. Maybe if you could just give us a little more color on your ability to kind of weave in some of these new contracts and opportunities from your existing capacity. Thanks.

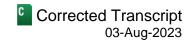
Rex D. Geveden

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

Yeah. Maybe that was misunderstood, Peter. We're examining what capacity we need to step into this volume of demand that we see. I mean, I was in our Cambridge plant a couple of weeks ago and it's [ph] chock (00:34:05) full of steam generators that we're building for Bruce. The feeders are in there for both Bruce and for Darlington still finishing up the Darlington project. And it is heat – very large heat exchangers running through that plant right now, so it's pretty well jammed up. And when you think about putting a reactor pressure vessel for that first small modular reactor, the BWRX-300, add the other three to it, this fall, we're certainly going to get – I certainly believe the Ontario province will approve formally the Pickering refurbishment, this 48-steam [ph] generators (00:34:39) build for that project. All the feeders, all the refurbishment, waste containers, which are additive to all the above.

And then you've got potential build at TVA at the Clinch River on that same BWRX-300. And then the Bruce side is looking at 4.8 gigawatts of capacity, that's almost certainly going to be large plant build. So that ends up being either CANDU or AP1000 or something. And so there's just a tremendous amount of opportunity and volume ahead of us. And so we need to look at what our plant capacity is and whether or not we need to build out additional capacity. And certainly expect us to need to do that in the coming years because it's just a lot.

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Robb A. LeMasters

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

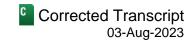
Yeah. Maybe I'll add something and just in terms of trying to talk about the footprint, because we're going through kind of a look at if we were to increase capacity. Our main facility in Cambridge, just to give you some sense, a little over 200,000 square feet facility. We're talking about whether you need to add 100,000 square feet there or in the US and there's multiple different ways, different properties that we have to do that and to expand capacity.

I would also note that's a pretty capital light. We do a lot of final assembly in that business, which is different than our Government business. So it's really increasing square footage and can be done sort of in that same sphere as what we've talked about in the past that if this market really takes off, these types of projects are tens of millions of dollars, depends on how quickly it sort of increases. But that's what we're seeing is that if the SMR market really takes off in either Canada or US, we'd want to facilitate for that. So that's all conceived of really in the way we've been about growth investments in the past.

Peter J. Arment Analyst, Robert W. Baird & Co., Inc.	Q
Appreciate that color. I'll leave it at one. Thanks, guys.	
Rex D. Geveden President, Chief Executive Officer & Director, BWX Technologies, Inc.	A
Thanks, Peter.	
Operator: Your next question comes from David Strauss with Barclays. Your line is now open.	
David Strauss Analyst, Barclays Capital, Inc.	Q
Hi, team.	
Rex D. Geveden President, Chief Executive Officer & Director, BWX Technologies, Inc.	A
Hi, David.	
David Strauss Analyst, Barclays Capital, Inc.	Q
Hey. Hey, Rex. So the Medical business, are you still on kind of a trajectory or time line to go from, I guess, somewhere slightly positive breakeven EBITDA say in that business to the \$75 million in EBITDA that you've talked about in 2025?	
Robb A. LeMasters Chief Financial Officer & Senior Vice President, BWX Technologies, Inc.	A
Yeah, we are. We put out that slide that at Investor Day that you are probably well familiar with, that talks at	oout

\$200 million of revenue and \$75 million of EBITDA in the kind of the 2025. We put a plus there obviously because depending on the timing of when we can get into market, you kind of need a full year run rate to hit that. So whether that's a full year 2025 or dips over the year, but that's exactly right. We still feel we can hit that. In fact, in

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the quarter, I can't remember whether we said in the script, we kind of hit a milestone for ourselves, we turned EBITDA positive in the quarter.

And as you recall at the Investor Day, I sort of said, jeez, I hope by the second half it was our goal to turn positive at some point in the second half of 2023 and so, proud that the team kind of came forward both because the top-line is working, as well as really good cost management. The individuals that running that business is really looking at everything that we're doing and thinking about it not only from a top-line growth, but from an expense standpoint. And so here we are with positive EBITDA in the quarter and we see that continuing. So that's sort of positive EBITDA from here on in and next stop, hopefully is \$75 million.

David Strauss

Analyst, Barclays Capital, Inc.

Okay. Thanks. And Rob, probably another one for you. So, you talked about [indiscernible] (00:38:28), it sounds like a little bit CapEx creep this year, but you think you can offset with working capital goodness. Can you maybe talk about it? I think we've talked in the past about the initiatives on the working capital side, where things kind of stand today and where might the working capital upside that you're [ph] seeing at confirm this year (00:38:46)?

Robb A. LeMasters

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

Yeah. Thanks. That's exactly right. So as we've been sort of where the Street's at is consistent with the kind of base level of \$100 million-ish plus we had to finish off that. We had a little bit of the \$30 million that we announced last year on Project Pele in the 2022 timeframe. But then we really had to eat up the \$25 million, if you will, of the \$30 million in 2023. So \$100 million plus the \$25 million is kind of where most people on the Street are from a CapEx standpoint. So that's sort of the level that I feel where we sit at today.

As we look at DRACO specifically and maybe some light manufacturing activity on the SMRs, you'll get a little bit of upside potential on the CapEx just to frame it versus that \$125 million. Or by the way, from a CapEx standpoint, the first half, we're at \$70 million. And so if you just were to double that and say we're on that run rate, that kind of gives you a sense for where CapEx could be beyond the \$125 million.

And you're exactly right, what we're trying to do is rally the team around. If you're going to spend more on CapEx, let's find a way to lean in on the working capital side. And so we have a couple of people really targeting that. My head of finance is really all over that, Mike Fitzgerald, and we spent a lot of time on that. Really the biggest opportunity we see, there's a couple of different elements of working capital, the biggest opportunity we see right now is on the DSO side of things. We're looking hard not only at receivable but advanced billings around [ph] SIP (00:40:32) and really what we're seeing is pretty good year-over-year. We had a good quarter this quarter. We were a little bit better than we expected.

We're seeing a lot of management around milestones and billings and thinking about how to structure contracts and hit those milestones at good points. And so ultimately, I see that target of working capital days coming down by one or two days each year where we're actually year-over-year, we're down by about a day. So I'm hoping to squeak out another day or two over the second half. So we're targeting across the board initiatives, but that's where we're spending a lot of time.

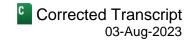
David Strauss

Analyst, Barclays Capital, Inc.

Great. Thanks very much.

Q

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Robb A. LeMasters

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

Sure. Thank you.

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

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Hey, good evening, guys. Thanks for taking the question here. I don't know who wants this, Rex or Rob, but certainly when we look at your business, you mentioned TerraPower, DRACO, Pele, you've got TRISO going. It sounds like there's a lot of irons in the fire for other SMR work. How are you managing the potential design risk? I mean, all of these kind of programs and opportunities are first of a kind, are you strained on resources there? And I'm just wondering how you kind of prevent one of these calls from going off the rails if there's cost overruns or you're kind of what we were just saying, missing milestones. But how are you looking at the portfolio and managing that design risk?

Rex D. Geveden

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

Yeah. Hey, Michael, thanks for your question. I'll take a crack at that one. We've got quite a design capability in our commercial business in Canada. We had an in-house design capability when we spun in 2015. But recall that we acquired the GE Hitachi business from the Canadian nuclear businesses in late 2016 and brought in quite a design capability with that. That's the team that does the refueling robotics and a number of other things. They design the target delivery system and they do other complex nuclear designs. So we've got quite some design depth there. The team has plenty of capacity for it.

Most of these designs, for example, the reactor pressure vessel for the BWRX-300 and now this Natrium heat exchanger, that's a molten salt to molten salt heat exchanger, that's an exotic thing, a pretty interesting project for us. Those are projects in the millions – single-digit kind of millions. They're typically done on a fixed-price basis. But we've got a great history of being able to estimate what the design costs are going to be and managing all that. And so I don't – it's not a risk that I worry about very much, given our history there and our design depth.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Okay. Okay, good. And then just one more on I think you kind of mentioned quickly you're working on pricing with the Navy. How does that – those negotiations, conversations [ph] encapsule (00:44:00), what could potentially happen here with AUKUS and the transfer of those subs? Are they in this pricing agreement or just how should we think about that expectation?

Rex D. Geveden

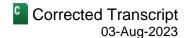
President, Chief Executive Officer & Director, BWX Technologies, Inc.

Yeah. So this pricing agreement certainly does not include anything related to AUKUS. I think that's on the comm. What we're negotiating right now is kind of a standard pricing agreement that we have Virginia, Columbia type content in it. So nothing there yet, I expect that in future years. And maybe, Mike, let me go back and add a footnote to my prior answer to you on design risk. Recall that for the government new reactor designs that we have on Pele and for DRACO, those are done on – both of those are done under cost reimbursable contract. And so we're not exposed to cost risk on those more exotic and more complex designs, let me say. And so we have



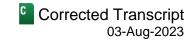


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that. We also have government indemnity on those things and so much different posture on the government reactor design side of it. Michael Ciarmoli Analyst, Truist Securities, Inc. Got it. Perfect. Thanks, guys. Rex D. Geveden President, Chief Executive Officer & Director, BWX Technologies, Inc. Thanks. Thanks, Michael. **Operator**: Your next question comes from Andre Madrid with Bank of America. Your line is now open. Andre Madrid Analyst, BofA Securities, Inc. Hey, I know it's kind of been touched on a little bit, but I was wondering if you could maybe quantify a bit more about the sales upside you could be seeing from Medical through the end of the year? Robb A. LeMasters Chief Financial Officer & Senior Vice President, BWX Technologies, Inc. The sales upside, you said? Andre Madrid Analyst, BofA Securities, Inc. Yeah, yeah. Robb A. LeMasters Chief Financial Officer & Senior Vice President, BWX Technologies, Inc. Yeah. So what we said is our ultimate goal for the year is to be up 20% plus. We had a better quarters than that and I see for the remainder of the year prospect for coming in higher than that 20% growth for revenue, that was our target for 2023. We're tracking, as I say, year-to-date to exceed that and so we'll keep going on that. Andre Madrid Analyst, BofA Securities, Inc. Got you. Got you. That's about it on my end. I'll hop back in queue. Thank you. Robb A. LeMasters Chief Financial Officer & Senior Vice President, BWX Technologies, Inc. Okay, great. Thanks for the question. Rex D. Geveden President, Chief Executive Officer & Director, BWX Technologies, Inc. Thanks, Andre.

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Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

...us today. We look forward to seeing and speaking with many of you at upcoming investor events. If you have any questions, you can reach me at by phone or email at investors@bwxt.com. Thanks.

Operator: This will conclude the conference call. Thank you for joining us today. You may now disconnect.

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