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# BWX Technologies, Inc. (BWXT)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to BWX Technologies' First Quarter 2025 Earnings Conference Call. At this time, all the 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.

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**Chase Jacobson**

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

Thank you, Frank. Good evening, everyone, and welcome to today's call. Joining me are Rex Geveden, President and CEO; and Robb LeMasters, Executive Vice President and CFO. On today's call, we will reference the first quarter 2025 earnings presentation that is available on the Investors section of the BWXT website.

We will also discuss certain matters that constitute forward-looking statements. These statements involve risks and uncertainties, including those described in the Safe Harbor provision found in the investor materials and the company's SEC filings. We will frequently discussed 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. BWXT had a solid start to the year with good first quarter financial results and multiple strategic wins. Our first quarter financial performance exceeded expectations, highlighted by double-digit year-over-year revenue, adjusted EBITDA and adjusted earnings per share growth. We had solid execution across our businesses and benefited from an increased pace of work and timing of material procurement.

From a demand perspective, we had another quarter of robust bookings performance led by Commercial Operations, whose backlog now stands at \$1.3 billion, up 78% year-over-year. In Government Operations, our win streak continued with the award of the management and operations contract for the Department of Energy's Strategic Petroleum Reserve in April.

Additionally, the NNSA published its intent to award the Domestic Uranium Enrichment Centrifuge Experiment or DUECE contract to BWXT on a sole-source basis. These two contracts highlight our unique value proposition in energy security.

With our strong first quarter results as a backdrop, I'd like to spend a few moments to discuss BWXT's all-weather portfolio, the trust our customers place in BWXT and how we are positioned in the current macro environment. First, the secular drivers of our business, the global power competition, decarbonization and increased demand for nuclear technologies, are persistent. They are creating near and long-term opportunities for BWXT that are mostly independent of short-term economic variability.

On the government side of our business, US shipbuilding and more specifically, the naval nuclear fleet and nuclear modernization are top priorities for the administration. Our roles as the sole-source provider of nuclear reactors, components and fuel for the US Naval Nuclear Propulsion Program and as a trusted supplier of other products and services to the DOE and NNSA position us well in the current environment.

Similarly, on the commercial side of our business, our customers are making long-term investments to meet growing electricity demand and satisfy decarbonization goals with clean nuclear power. We have the largest heavy nuclear equipment manufacturing facility in North America in Cambridge, Ontario, where we are expanding capacity. Further, we are augmenting our Nuclear Services portfolio through the pending acquisition of Kinectrics. Said differently, BWXT enables mission critical long-term investment, long-term investment to which our customers are committed.

I will remind you that our supply chains are mostly contained in the countries where we operate. In the US, we have a long-standing largely domestic supply chain to meet the strict national security requirements of our customer. In Canada, we have a growing workforce that currently stands at about 1,900 across five major operating sites serving the CANDU and SMR market with a mostly indigenous supply chain, requiring little or no cross-border movement of input materials and finished products. All of this is meant to remind you that while no company is impervious to macro disruptions, BWXT is positioned to weather any storm given our long cycle contracts, alignment with customer priorities and strong balance sheet.

Now, turning to our first quarter results and market outlook, which further affirm the resilient characteristics of our business. Government Operations had a strong quarter with 14% revenue growth and 17% adjusted EBITDA growth, albeit off a relatively easy comp, driven by timing of material procurement under our new pricing agreement with naval reactors, the continued ramp of U-Metal and the A.O.T. acquisition. Higher revenue and

solid operating performance drove segment adjusted EBITDA margin to its highest level since the fourth quarter 2023.

In naval propulsion, our focus on operational excellence drove improvements in utilization and efficiency. Our backlog supports our revenue outlook for modest growth in 2025, with steady production of Virginia-class submarine reactor cores, increasing production of Columbia-class components and Erwin AUKUS scope. These help offset the lull in Ford-class aircraft carrier propulsion systems through 2025 and likely 2026, which we began discussing upon publication of the latest 30-year shipbuilding plan in early 2024.

From a longer term perspective, the administration's prioritization of the Navy and its industrial base to defend the South Pacific underscores our 10-year forecast of a 3% to 5% of revenue CAGR in this line of business. Our recent wins and ongoing operations at multiple DOE sites within technical services are also a testament to government confidence and trust in BWXT to support its most crucial missions.

In the first quarter, we completed transition and now lead the Hanford Integrated Tanks Disposition Contract, which is the largest TSG project in our portfolio and one of the largest environmental restoration projects in the world. Just recently, BWXT's minority JV partner with APTIM was selected to manage and operate the Strategic Petroleum Reserve site in Texas and Louisiana for the DOE.

While this contract brings a relatively modest earnings contribution in the near-term, it highlights our value-based competitive positioning in this space. Following this win, BWXT is providing services at 13 DOE and NNSA sites in the US and is actively tracking new opportunities in the US and Canada to further grow this exciting business.

In special materials, perhaps one of our most underappreciated businesses, our growth prospects are beyond exciting. We closed the A.O.T. acquisition on January 3, have fully integrated it financially and are working with customers on large-scale opportunities to supply high purity depleted uranium for national security missions that would create a strong upside to our M&A business case within the first few years of our ownership.

In that same vertical, we are more than halfway through a one-year study for the build out of a national security enrichment plant. We are receiving positive feedback from the NNSA, which recently published its intent to issue a sole-source contract to BWXT for a pilot plant. For that purpose, we acquired 97 acres of land in Oak Ridge, Tennessee. We will keep you posted as this exciting part of our business evolves.

In our microreactor business line, the Defense Innovation Unit launched the Advanced Nuclear Power for Installations Program, or ANPI, to provide energy security for US military bases. BWXT and a handful of other companies were selected to be eligible to receive awards under this program, for which we are well-positioned, given our heritage of Pele and TRISO fuel in addition to our facilities and experiential qualifications.

Turning to Commercial Operations, results in this segment met expectations with revenue and EBITDA growth in both commercial power and nuclear medicine. In commercial power, we had another very strong quarter of bookings leading to a record segment backlog of \$1.3 billion, up 39% from last quarter and up 78% year-over-year. This is mainly driven by the booking of the remainder of the Pickering life extension steam generator contract augmented by other key wins across the portfolio.

Importantly, even excluding the Pickering contract, our book-to-bill would have been above 1.0, highlighting solid underlying demand in the market and supportive of our forecast for double-digit organic commercial power revenue growth in 2025. Concerning future plans, our largest customers, Bruce Power and Ontario Power

Generation, are investing in their existing nuclear generation capacity as they look to undertake large scale new builds.

On top of that, Energy Alberta recently submitted an initial project description for the proposed Peace River Nuclear Power Project that calls for up to 4.8 gigawatts of CANDU capacity. This expands the large scale newbuild opportunity in Canada to nearly 20 gigawatts, more than double the country's current nuclear capacity, and obviously representing a meaningful long-term opportunity for BWXT and the entire CANDU supply chain.

In the SMR market, the Canadian Nuclear Safety Commission authorized construction of the first BWRX-300 unit at OPG's Darlington site, a significant milestone for North America's first SMR project. Our work on the reactor pressure vessel continues at pace and we continue to anticipate multiple follow on orders in Canada, the US and Europe.

As I previously mentioned, we are investing to meet customer demand. The expansion of our Cambridge manufacturing plant, which will create nearly 50% more capacity, is ahead of schedule and the acquisition of Kinectrics, which offers a broad set of life of plant services, is on track to close by mid-year. Also, as the US nuclear power industry seeks partners for plant life extensions, new SMR deployments and perhaps large scale reactor build outs, BWXT stands ready with our scaled domestic nuclear manufacturing footprint and a highly credentialed nuclear qualified workforce.

There are several compelling industry groups coalescing around a whole of industry approach to propelling the commercial nuclear enterprise in America. Similar to the group formed by TVA and its application to the DOE for an \$800 million SMR development grant. These groups will require strong nuclear partners and BWXT is prepared to support this exciting growth.

Turning to BWXT Medical, we had a solid quarter with double-digit revenue and adjusted EBITDA growth, driven by our PET diagnostic product lines. We remain on track for full year revenue growth of over 20%.

As discussed on the last call, with our medical business based in Canada and a portion of our sales going to the United States, we've been working closely with our customers to assess the impact of potential tariffs. Today, our products are covered under the USMCA free trade agreement which exempts radiopharmaceutical materials from tariffs. Nonetheless, we continue to watch this closely and are working to limit future cross border risk and product delivery disruption.

On Tc-99, consistent with prior updates, we are perfecting our product as we proceed toward FDA approval. Looking forward, the market for nuclear medicine remains highly enticing with increasing volumes of SPECT and PET scanning procedures and pharmaceutical companies investing heavily in novel radiotherapeutic drugs. Of note, Novartis just received FDA approval for Pluvicto, it's blockbuster lutetium-177 based prostate cancer treatment to be used in pre-chemotherapy settings, which is estimated to triple the number of patients eligible for the treatment, highlighting the market's growth potential.

In conclusion, we had a very good financial performance in the first quarter, supported by our growing backlog and accelerating nuclear demand. Our customers are investing for the future and our value proposition rings true as we prepare for growth and navigate any macroeconomic condition.

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

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## Robb A. LeMasters

*Chief Financial Officer & Executive 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 \$682 million, up 13%, with growth in both segments. Adjusted EBITDA was \$130 million, up 13% year-over-year, driven by robust double digit growth in Government Operations and modest growth in Commercial Operations. This was partially offset by slightly higher corporate expense.

We continue to expect corporate EBITDA expense in 2025 to be slightly lower than the \$16.8 million reported in 2024. Adjusted earnings per share were \$0.91, up 20% compared to \$0.76 last year, due to the operating items previously discussed, complemented by a lower tax rate and slightly lower interest expense that was partially offset by lower pension income in other net on the income statement.

Our adjusted effective tax rate in the quarter was 18.3%, in line with seasonal patterns, due to the timing of excess tax benefits on compensation expense. For the full year, we expect our adjusted effective tax rate to benefit from the ongoing tax planning initiatives discussed last quarter.

In fact, with a better line of sight to qualified research expenditure credits and geographical mix from growth in our Canadian commercial nuclear power business, we now expect our 2025 tax rate to be only slightly higher versus 2024, a modest improvement compared to our original expectation of a 20 basis points to 40 basis points increase.

Free cash flow in the quarter was \$17 million, driven by timing of advanced billings and working capital management in what is seasonally our lowest quarter of cash generation. Capital expenditures in the quarter were \$33 million or 4.9% of sales compared to our expectation for full year CapEx to be in the range of 5% to 6% of sales. Lower CapEx in the quarter was mainly due to timing of spend on the Cambridge expansion, which is expected to ramp throughout the year as the project is progressing ahead of schedule, as Rex mentioned. Consistent with our prior view, we anticipate full year free cash flow of \$265 million to \$285 million.

Moving to the segment results on slide 6. In Government Operations, first quarter revenue was up 14%, driven by growth in naval propulsion, special materials and about 1% contribution from the A.O.T. acquisition. Adjusted EBITDA was \$117 million, leading to adjusted EBITDA margin of 21.1%. As Rex mentioned, we had good operating performance but also benefited from timing of certain long lead material procurements. We continue to expect Government Operations to generate mid-single digit revenue growth in 2025, consisting of low-single digit organic growth plus contribution from the acquisition of A.O.T. and adjusted EBITDA margins of approximately 20%.

Turning to Commercial Operations, revenue was \$128 million, up 10% year-over-year, led by double-digit growth in medical and solid growth in commercial power. Within commercial power, higher revenue was driven by SMRs and Pickering component volumes, which was partially offset by lower field services work due to the wind down of the Darlington life extension project and timing of outage work, which can vary significantly on a year-over-year basis.

Adjusted EBITDA in the segment was \$14 million, up modestly year-over-year. However, adjusted EBITDA margin was 10.9%, down 100 basis points as good operating performance was offset by two main factors. First, as we discussed last year and contemplated in our guidance, we faced unfavorable mix and cost absorption due to the decline in field services related to the pacing of life extensions and outage schedules. Second, we experienced heightened inflation for specialized raw materials in our CANDU fuel business line. This temporary

impact will be with us through the second quarter until we begin to contractually recover these cost increases in the second half of the year.

For the full year, we anticipate Commercial Operations revenue growth of approximately 50%, consisting of double-digit commercial power growth, over 20% medical growth and contributions from the Kinectrics acquisition. Our EBITDA outlook calls for 14% to 15% EBITDA margin, although we now see the lower end as more likely due to the higher raw material cost issue in the first half of the year.

Turning now to our 2025 total company guidance on slides 7 and 8 of the earnings presentation. We are reaffirming our guidance for the four key metrics we provided last quarter for revenue, adjusted EBITDA and EPS, and free cash flow. I will note that we refined the ranges for several items listed on the right side of slide 8, which I referenced throughout my remarks.

Looking at the quarterly cadence of earnings, as discussed, our first quarter EPS outperformance was largely due to the timing of work in Government Operations as well as a slightly lower tax rate. For perspective, compared to our expectation, a little over a \$0.10 in earnings per share came from higher operating income, mainly due to higher Government Operations segment income from material procurement timing from Q2 into Q1 and just over a \$0.01 from more favorable taxes, given the tax planning initiatives I discussed earlier that will remain with us for the remainder of the year.

As the material procurement related item normalizes, we now expect the second quarter to be our lowest earnings quarter of the year. This should equate to a little over half of our full year EPS coming in the second half of the year, consistent with our prior view.

To conclude, we had a good start to 2025. Our financial performance, strong bookings and outlook highlight the quality of BWXT's broad capabilities in the nuclear industry, serving global security, clean energy and nuclear medicine markets. We are intensely focused on execution and are investing in our company to support customer demand.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. And we will now begin the question-and-answer session. [Operator Instructions] Thank you. And 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. Robb, it looks like there were some negative EACs this quarter of about \$11 million based on what's in the 10-Q. Were those EACs all at Government Operations and then can you share in more detail what the offsets were that allowed the segment to deliver these pretty strong margins honestly, despite that headwind? Thank you.

**Robb A. LeMasters**

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

A

Yeah. No, it wasn't all in Government Operations. It's about half and half between the Commercial and the Government business. In terms of those EACs in that footnote, the half from the Commercial Operations, we talked a little bit about that [ph] zirc (00:21:24) cost impact that was actually the material zirconium that impacted us on the fuel business. And so we'll start to recover that, as I mentioned, during the second half and ultimately into 2026 [indiscernible] (00:21:36). But that obviously causes sort of a negative offset there. And then the GO business, it's really a little bit of this, a little bit of that across that segment. Nothing to call out and nothing big on the positive side.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And then, Rex, in terms of the recent funds that have been appropriated to support the shipbuilding industry, do you see BWXT as in line to get any of that funding? I mean, your performance would suggest you don't really need it, but just curious if maybe there are opportunities for you all in terms of getting additional government support? Thank you.

**Rex D. Geveden**

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

A

Yeah. Thank you, Scott. To be clear, you're talking about all the elements in the reconciliation bill?

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. As well as the continuing resolution that included, I think, an extra \$5.5 billion for the industry.

**Rex D. Geveden**

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

A

Oh, for the CR, yeah. Okay. Not much there for us in the CR, the reconciliation bill is interesting. That's a question you didn't ask. But there are interesting things in there for domestic for defense enrichment and for acceleration of DOD nuclear reactors and some things like that. So, we're a bit optimistic about what could come of that.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Thank you.

Q

**Rex D. Geveden**

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

Thank you.

A

**Operator:** And your next question comes from Pete Skibitski from Alembic Global. Please go ahead.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Hey. Good evening, guys. Rex, could you maybe go further on the whole reconciliation package? I mean, I think there are some potential changes that NASA, I don't know if that means we're more inclined to go to Mars now and maybe what that could mean for you. And then also just the shipbuilding office set up, lot going on there. Could you maybe add some color on that?

Q

**Rex D. Geveden**

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

Yeah. To the best of my ability, I will, Pete. And hey there. So, yeah, the reconciliation bill, as I mentioned, has some funding for accelerating defense enrichment. There's some funding to accelerate DOD reactors, there are some additional funding for the Strategic Capabilities Office. There seems to be maybe some funding in there for coated fuels like TRISO and some things like that. And, of course, there's some pretty – there's a pretty big chunk of money for a second Virginia, I think, that goes with FY 2027. So, there's a lot there.

A

In terms of the office of shipbuilding, it's – I think it's too early to tell how much, what if any of that would influence us, Pete, I would say that's generally positive. I certainly like the White House's posture on the emphasis on nuclear shipbuilding specifically and also commercial shipbuilding, which I believe this nation needs more capacity for. On the space one, hard to say exactly what that – you're talking – if you're talking about the language that came out in a skinny budget from the White House...

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Right.

Q

**Rex D. Geveden**

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

...it's hard to tell exactly what that propulsion language was about. I suspect it's related to SLS. In terms of nuclear, we're getting pretty good vibes from NASA about their appetite for nuclear thermal propulsion, and I kind of expect that to go forward.

A

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Okay. I wasn't quite sure at DOE, if you saw any step back in terms of support of any of the advanced nuclear stuff you do there that goes through DOE. Did that all look pretty closure to you guys?

Q

**Rex D. Geveden**

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

A

Yeah. I'd say almost the opposite, Pete. This idea of energy dominance that's being promoted by the administration certainly includes a strong nuclear element and I would say that the Energy Secretary, Chris Wright, seems very, very pro-nuclear from every encounter we have. So, yeah, if anything, it feels like full steam ahead on advanced nuclear and acceleration of nuclear projects.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Got it. Thank you. Maybe just one quick one for Robb. Hey, Robb, just on the raw material issue at commercial and calling it back in the second half, second quarter is typically your highest margin quarter our commercial. Does that change this year because of that impact?

**Robb A. LeMasters**

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

A

It does. Thanks for flagging that. Yeah. Generally, as you know that that is a higher margin quarter where we actually do some outage work that can be a little bit higher margin. That's going to be overwhelmed, if you will, by that zirconium sort of issue that we have and just kind of a couple other mix items. So, I would say we're not going to have as great a performance as it relates to the normal margin flow and then that will pick back up.

I think we have a better schedule, frankly, in the second half than we even had last year and just in terms of timing of projects. So, the way I would think about it is sort of lower margins in the first two quarters, which is a little bit of an anomaly for us in the Commercial business and then picking up even more than maybe one might expect in the second half.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay. Great. Thank you.

**Rex D. Geveden**

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

A

Sure.

**Operator:** And your next question comes from Bob Labick from CJS Securities. Please go ahead.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Good afternoon and thanks for taking our questions.

**Rex D. Geveden**

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

A

Hey, Bob.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

So – hey. So, Rex, you said perfecting the process on moly right now. And so just kind of maybe the latest update and timeline on that. And in the past, we've kind of thought if you're approved by September, October, then you can get into the contracting season for 2026. But now you have partners kind of waiting for approval. So, I don't know if like September, October is still a timeframe that's necessary or how are you thinking about latest steps and then kind of like timeline to get into contracted sales in 2026?

**Rex D. Geveden**

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

A

Yeah. I certainly had hoped for approval in 2025, Bob, as we discussed many times before. This last mile here has been pretty long for us to get a couple of product characteristics right. So, what I would say about that is there's still a window for approval in 2025. We did not forecast any sales in 2025. I think what we said consistently was that, if anything, we might be in the spot market for 2025. So, our plan doesn't depend on that at all. I certainly hope for approval in 2025 and we still see – we still have a window for that, for sure. But honestly speaking, that could bleed over into the first couple of months of 2026 or whatever. But we're – we can see the finish line from here, for sure.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Great. And just to clarify, the effectiveness and everything is there. This is, as you said, perfecting the product, the elution time, the rates, like things like that, or how should we think about the delays?

**Rex D. Geveden**

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

A

Yeah. We've been working on things. You have a number of items when you go through – when we went through our first FDA application, they came back with a number of items that we needed to address technically. And so you sort of work your way through that list, of which there are literally dozens. Some of them are minor things and some of them are pretty significant things. I think we're well satisfied with product quality. We've been chasing down some contamination issues, which is very, very typical in radiopharma or pharm generally. So, it's things like that. It's just kind of pounding it flat, as I've said before, and I was certainly going to get there. But it's just a lot of details here in the last mile.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay. Great. And then, Robb, you gave us some good color on the cadence of Commercial Ops going – next quarter [indiscernible] (00:29:13), with a very big increase in backlog from Pickering and Pickering being the biggest driver, how do we think about that when that [ph] rolls on (00:29:22) over the next year or two? Is there like a lumpiness to it? Is it smooth once we get there or is there any kind of general thought on transition to that growth and SMR growth and how it will affect Commercial Ops?

**Robb A. LeMasters**

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

A

Yeah. There's nothing to call out in terms of, all of a sudden, it's going to surge in any one quarter or any one year. I think it's going to build pretty, pretty steadily. I would note that, of course, you have other refurbishment work that tails off, right, from refurbishments that we started a few years ago. So, you kind of have a – we talked about it last quarter that Pickering looks very strong on top of what we're doing at Bruce.

And then, of course, you have Darlington at some point that will kind of finish up. So, I think it's going to be steady. We've talked about that growth rate being one of the higher ones within our overall portfolio and I still see that over the next couple of years. Kinectrics as well, kind of lining up and confirming that, as we kind of looked inside their box, we also kind of feel like we have a different glimpse of that trajectory and it's steady as you go.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Okay. Super. Thank you.

Q

**Robb A. LeMasters**

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

Sure.

A

**Operator:** And your next question comes from Thomas Meric from Janney Montgomery. Please go ahead.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*

Good morning, gentlemen. Thanks for taking the questions. Wanted to start on the enrichment contract and just kind of walk us through the next phases of the pilot program, if you can, over the next few years. And then secondly, within enrichment, just wanted to get a sense of how you look at the LEU market for US reactor owners potentially being an obligated supplier of enriched product there and just what do you see as the returns in that market as well as the capital and operational risks of it?

Q

**Rex D. Geveden**

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

Yeah, sure. Good question, by the way. So, the – so where we are on that program with the NNSA is we're just in a conceptual stage designing a pilot plant. This next phase would be a sole-source award for that pilot plant. And what we're doing is looking at that DUECE technology, which was developed at Oak Ridge National Laboratory. It's a centrifuge type of enrichment technology.

A

And really what this phase is about is about design for manufacturability of those centrifuges. And what you do is, of course, with this pilot plant, be manufacturing the centrifuges themselves. So, you think of this in two different pieces. One is the manufacturing phase. The second phase is when you have obviously a plant and you go and actually perform enrichment on the uranium.

And so in order to get to the stockpile need, you obviously need high enriched uranium. But to get to that stage, you have to walk through low enriched uranium and high assay low-enriched uranium, which I think is the source of your question. And all that has to be done with unobligated materials meaning US sourced. So, that's the tricky part. That means you can't use some commercial uranium that isn't unobligated and on your way to high enriched uranium.

And so I think, I think that program could play out in multiple ways. One way would be that some commercial source emerges for those – for that LEU and HALEU material or you – or the NNSA could build the entire capability themselves. And so we've got a whole spectrum of outcomes depending on the acquisition strategy and depending on what emerges commercially on a natural basis.

So, I guess what I would say about it, I'll have to fudge here a little bit. It's just too early to tell where that thing will go. But suffice it to say that the pilot plant is an opportunity that's very interesting for us in the near-term, it'll be a significant program and then in the end we'll be the company that's doing the enrichment for defense purposes, for the high enriched uranium part of it. And I think all the in-between stuff is the interesting question mark and we'll see where that goes.

**Robb A. LeMasters**

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

A

Yeah, because the government has a very constructive view of using the HALEU market to ultimately set up that and test that capability. And as you know, the amount of SWU that's necessary in that market is way different than in the LEU. So, said differently, if you were to try to stand up a technology going from 1% to 5%, that's a lot of cost, whereas you could focus on the HALEU and that's why we believe [indiscernible] (00:33:59) that will allow us to do it at a lower investment on behalf of the government. And then ultimately, if that proves out, then they'll have an alternative. There's one other technology that could potentially be available to the LEU market and we'll see what the government, the DOE and NNSA want to do.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*

Q

Helpful on both. Thank you. Robb, I wanted to follow up on free cash flow seasonality through the year. I mean I think we've covered a lot of the margin puts and takes, but maybe just to expand on that, on the cash flow statement a little bit, is there any reason to think free cash flow seasonality this year is markedly different than, say, last year or the year before. And that's it for me. Thank you, gentlemen.

**Robb A. LeMasters**

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

A

Yeah, thanks for the question. No, I see it as a typical pattern. We've gotten off to a really good start in the first quarter, which is great to see. We talked about the seasonality of CapEx building over the course of the year. Same thing with operating cash flow. So, I think that'll make ultimately the back half look as it has in the past in the fourth quarter to be the most significant quarter in terms of free cash flow, but happy to get off to a good start here.

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

**Michael F. Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Hey. Good evening, guys. Thanks for taking the question. Nice results. Rex, hey, you mentioned, I think some early scope on AUKUS and that's probably come under some scrutiny. But if I think about AUKUS and then that potential for the second VA sub, does that – do those two items potentially change the slope of your kind of 10-year growth rate CAGR of 3% to 4%? Are they contemplated in there or are you feeling better about sort of both of those programs?

**Rex D. Geveden**

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

A

Yeah. Hey, Michael. I don't think that fundamentally changes our outlook. I think what it does is it de-risks our outlook a little bit, because what's happening here, of course, is the Australians have made kind of a \$500 million down payment against their \$3 billion commitment to the Department of Defense, the US government.

And some of that's starting to trickle through. And what we have going, our capital projects related to capacity expansion in order to accommodate AUKUS. And so it's just early capital projects, frankly, slightly lower margin than what we do in the rest of the plant, because [ph] it isn't (00:36:35) production programs, but it's also without risk because it's cost reimbursable. But, yeah, it just de-risks our future and starts the ramp toward AUKUS.

**Michael F. Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Okay. Okay. Perfect. And then just switching gears maybe to the ANPI program, any sort of updated details there? I think maybe there were probably a couple more participants than maybe we originally thought, but how are you thinking about that opportunity, maybe incremental revenues or what's the expected cadence of that program?

**Rex D. Geveden**

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

A

Yeah. I would say, Michael, there is a lot of uncertainty around that thing right now. They – we thought what would happen is they would down-select to a couple of suppliers. That final list is actually eight and includes us happily, but some others X-energy, Westinghouse, Kairos, General Atomics and Radiance and couple of others.

So, what they've said is that they've down-selected to that group of eight from, by the way, a very, very large field of interest and they're going to negotiate and then we're eligible to negotiate what are called OTAs with them, and that stands for other transactional authority. That means contracts that are outside of the federal acquisition regulations. It's an easier way for them to get into a contract framework with the suppliers. And so, I'm eager to see where that goes. We just don't have a good feel for the funding. We don't have a good feel for how much potential. We don't have a good feel for the probabilities yet, but we're eligible and we'll start the negotiations and hopefully get some business out of it.

**Michael F. Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Okay. Fair enough. I'll jump back in the queue, guys. Thanks.

**Rex D. Geveden**

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

A

Thanks, Mike.

**Operator:** And your next question comes from Peter Arment from Baird. Please go ahead.

**Peter J. Arment**

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

Q

Yeah. Good afternoon, Rex. Robb, Chase. Nice results.

**Rex D. Geveden**

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

A

Hey.

**Peter J. Arment**

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

Q

Hey. Robb, just for clarification, on the Pickering life extension steam generator contract that was added into Commercial Operations backlog, was that for the full amount or is that just for the initial steam generators?

**Robb A. LeMasters**

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

A

Yeah. That finishes off the full order. I mean, there might be a little bit of cats and dogs, but that's the steam generator, the final the 48, if memory serves. So, that's the final. I think we got a little bit in the beginning and that just kind of gives the final, but...

**Peter J. Arment**

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

Q

Okay. Thanks. It's helpful. And then, Rex, you mentioned that with the new Secretary of Energy that it seems to be all go for nuclear. What has – has there been any discussions or any new developments on SMRs, whether it's TVA or some of the other players that are out there?

**Rex D. Geveden**

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

A

Yeah. I think the Department of Energy is certainly pushing TVA to get the Clinch River site started as soon as possible. And there are other discussions that I hear about that I couldn't necessarily disclose, but it feels like the DOE is leaning in very hard to enable the commercial capability for SMRs in the US. And we're certainly grateful to see it. We need some steam on that.

**Robb A. LeMasters**

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

A

Yeah. I might just add, we feel pretty well-positioned because, of course, we have strong manufacturing capability in the US and with everything going on macroeconomic wise, they would be looking obviously for a local solution, whereas in other instances or other geopolitical environments, we might see different people desiring to ship material into the US. We see that all the more reason why we'll be part of the solution.

**Peter J. Arment**

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

Q

Got it. All right. I'll leave it there. Thanks, guys. Appreciate it.

**Rex D. Geveden**

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

A

Thanks, Peter.

**Operator:** And your next question comes from Andre Madrid from BTIG. Please go ahead.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

Hey. Good afternoon, everyone. You called out the zirconium cost impact of it earlier in the call. And I kind of wanted to just dive a little bit deeper there and get a sense of what you guys are seeing. I'm aware that, obviously,

a lot of global supply is dominated by China. So, recent tariff noise probably doesn't help the issue. I mean, how isolated is that impact? How able do you think it will be to manage it moving forward? Any sense there would be helpful.

**Robb A. LeMasters**

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

A

Yeah. I could start just financially talking about it, as we mentioned in the commercial nuclear power business, we do import certain materials into Canada, right, from other markets into Canada. So, that's the first thing to make clear about the geopolitical, right, its materials into Canada from other geographies, sometimes also the US. We generally try to buy that sufficiently forward.

We don't see other issues really affecting us. I mean, overall commodity prices going up is not a favorable thing for us, but we generally work with our customers and have clarity and hedge all that and kind of have that material on the ground in that business. So, this was a very rapid change. And luckily, because we have really strong relationships with our customers, we actually have a pass through mechanism, as I said, to exactly mitigate some unforeseen risk to our business, because ultimately we weren't looking to bear that risk and so we've had that for years.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

Got it. Got it. And then I guess, aside from that and sorry if this is kind of rehashing the previous question that was asked on it, but AUKUS, aside from the initial Virginia units that you guys are going to be contributing to, I mean, when will we get any further sense on component down selection and what your eventual role on the later program that's built in Australia will be?

**Rex D. Geveden**

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

A

Yeah. So, you're talking about SSN-AUKUS scope. Yeah. Following the three to five Virginias, we've said that we anticipate scope on SSN-AUKUS. We haven't been specific about that yet and really can't be. But as soon as we could disclose that scope, we will.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

Got it. Got it. Very helpful. All right. I'll leave it there. Thanks.

**Rex D. Geveden**

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

A

Thanks, Andre.

**Operator:** [Operator Instructions] And your next question comes from Jeffrey Campbell from Seaport Research Partners. Please go ahead.

**Jeffrey Campbell**

*Analyst, Seaport Global Securities LLC*

Q

Hi. Good evening and congratulations on the strong quarter. I thought BWXT's entry into the SDR management was both interesting and perhaps not expected. Can you add some color on how the award came about and why you believe BWXT was chosen?

**Robb A. LeMasters**

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

A

Yeah. Hey, Jeff. I'll take a crack at that, right? It was a very competitive, very competitive field there. I believe there were six proposals that were submitted altogether for that activity. I thought it was a bit of a long shot for us, and so we were certainly happy to win it with that crowded field.

That said, we have experiential quals that go all the way back to our history as McDermott, we once managed that side as Babcock & Wilcox. So, we know that world and we've developed experiential quals in that world. And so I think the reason you see DOE taking a bet on us there is because we understand how to operate high consequence sites, whether they're nuclear or otherwise. And there's, I think, a tremendous amount of confidence in the BWXT brand and the people that we bring to it. And so it gave us the opportunity to look at on the horizon, expand into something new based on our performance history with DOE.

**Jeffrey Campbell**

*Analyst, Seaport Global Securities LLC*

Q

Yeah. That makes a lot of sense. Thank you. And on the medical side, I just want to ask how the actinium-225 effort continues to progress. We continue to see some chatter about lead-202 as a competitive approach. So, I just thought I would check in on this.

**Rex D. Geveden**

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

A

Yeah, sure. So, we're doing well in actinium. I think we're still the largest commercial producer of that product. We produce it at the Triumph accelerator with a spallation method, it's called. We also are working on other production modalities, I think we've talked about on these calls. And so we've got multiple sources for it. It's exciting.

There are other isotopes that are emerging as possible therapeutics for cancer. And what I would say about those is I don't know that they're necessarily competitors. They are probably also in the race. Lutetium and actinium, for example, behave differently in the body and address different cancer conditions and different tumors in different states of metastases. And so to me, lead is another one of those in the product pipeline. So, it would be there with lutetium, actinium and perhaps others to come. So, pretty excited about the potential of all of it.

**Jeffrey Campbell**

*Analyst, Seaport Global Securities LLC*

Q

Great. Great. Thank you. Appreciate it.

**Operator:** There are no further questions at this time. I would like now to turn the call back over to Chase Jacobson for the closing remarks.

**Chase Jacobson**

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

Thanks, everybody, for joining us today. We appreciate your interest in BWXT and for your questions. We look forward to seeing and speaking with many of you at upcoming investor events in the next few months. If you have any questions, you can reach me at [investors@bwxt.com](mailto:investors@bwxt.com). Thank you.

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