

04-Aug-2025

BWX Technologies, Inc. (BWXT)

Q2 2025 Earnings Call

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Michael T. Fitzgerald

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to BWX Technologies' Second Quarter 2025 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, sir.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you. Good evening, and welcome to today's call. Joining me are Rex Geveden, President and CEO; and Mike Fitzgerald, Senior Vice President and CFO. On today's call, we will reference the second 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 discuss non-GAAP financial measures, which are reconciled to GAAP measures in the appendix of the earnings presentation that can be found on the Investors section of the BWXT website.

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

Rex D. Geveden

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

Thank you, Chase. And good evening to all of you. First, I would like to welcome Mike Fitzgerald, our CFO, to the call. Mike has been with BWXT since 2022, and previously held the roles of Chief Accounting Officer, Head of Finance and CFO of Government Operations. He is deeply ingrained in our business, is a trusted resource for the entire executive team, and I'm happy to have him on the call with us today.

Now turning to our results, and a discussion of our markets and outlook. Second quarter financial results exceeded our expectations, driven by strong execution and pacing of work in Government Operations. Our second quarter financial results featured double-digit adjusted EBITDA and earnings per share growth and robust free cash flow. We closed the acquisition of Kinectrics in May. Kinectrics brings a workforce of over 1,300 employees, and significantly broadens our life of plant services capabilities in the nuclear power and energy infrastructure markets, enabling us to offer an even broader range of services to the market. Demand across the global security, clean energy and medical end markets is accelerating. Backlog grew to \$6 billion, up 23% quarter-over-quarter, and 70% year-over-year, with growth in both segments. Organic book-to-bill was 2.2 in the quarter, and the pipeline of new opportunities in Government and Commercial Operations is expanding.

Turning to segment results and market outlook. Government Operations revenue was up 9% and adjusted EBITDA up 23%, exceeding our expectations. Results were driven by strong execution, particularly within the special materials portfolio, the A.O.T. acquisition, and timing of material procurement. The naval propulsion business is focused on driving operational excellence and maintaining production pace on our franchise submarine and aircraft carrier programs. As we announced last month, we signed the next pricing agreement for naval nuclear reactor components. The agreement is valued at \$2.6 billion over the next eight years, primarily related to Virginia- and Columbia-class submarines, and certain components for Ford-class aircraft carriers.

We booked over \$1 billion in orders on this contract in the second quarter, driving Government Operations backlog to \$4.4 billion, up 24% sequentially, and up 55% compared to the second quarter of last year. This contract follows a \$2.1 billion pricing agreement we signed in late 2024, which combined with the administration's focused on naval shipbuilding and the submarine industrial base, supports our longer-term forecast of a 3% to 5% revenue CAGR in this line of business.

Special materials remains one of the most exciting growth stories at our company. We had strong performance on legacy contracts during the quarter, and our growth prospects are brightening. The experiential qualifications and unique licenses we possess are well-matched with national security missions, and position us to satisfy strategic priorities for our customers. We have nearly completed the one-year engineering study for defense uranium enrichment, using the DUECE technology to satisfy naval fuel and national security needs under contract with the NNSA.

Our current focus is responding to the sole source RFP issued in April for the next phase of this program, which includes design, licensing and construction of a pilot plant. Additionally, we are working with the NNSA on long-term production of high-purity depleted uranium in quantities that exceed our business case expectations for the A.O.T. acquisition. We are also tracking several advanced nuclear fuel opportunities intended for defense and commercial applications. We will keep you posted as these prospects take shape.

In microreactors, we began manufacturing the reactor core for Pele, a land-based transportable microreactor. Pele has received strong support in recent government funding bills, and is highly aligned with the President's

National Security Executive Order, titled Deploying Advanced Nuclear Reactor Technologies that directs the DOD to commence operations of a nuclear reactor by September 2028. As Pele progresses and the advanced fuel supply chain grows, there are multiple emerging opportunities that BWXT is well-positioned to capture.

In technical services, results are strong inside operational performance and in contract wins. Operating income from this business line was up over 20% compared to the average quarterly rate over the last year, and we are on track to outpace that growth for the full year. This is driven by the ramp at Pantex and Hanford, both of which began in 2024, and newer projects such as West Valley and the Strategic Petroleum Reserve, the latter of which is expected to commence in the second half of the year.

From a new business perspective, Atomic Energy Canada Limited (sic) [Atomic Energy of Canada Limited] (00:06:38) selected Nuclear Laboratory Partners of Canada, a BWXT-led joint venture, which also includes Kinectrics, to manage and operate Canadian nuclear laboratories, our first international project in this line of business. The annual contract value is about CAD 1.2 billion, with an initial term of six years, and extensions for up to 20 years. We are in the preferred bidder period, and expect to transition to a contract start date late in the third quarter.

Turning to Commercial Operations, reported revenue growth was 24%. On an organic basis, revenue was down 3%, and largely in line with our expectation as double-digit growth in medical was offset by a modest decline in commercial power due to the timing of outage and maintenance projects as we discussed last quarter. Backlog in the segment grew to \$1.6 billion, including about \$240 million from the Kinectrics acquisition. On an organic basis, book-to-bill in the quarter was 1.3. Importantly, this was driven by a multitude of contracts for existing nuclear power infrastructure, highlighting the strong underlying base of revenue in our portfolio, and supporting our full-year outlook for mid-teens organic growth, and over 50% growth, including contribution from Kinectrics.

BWXT Medical delivered a solid quarter with double-digit revenue growth, driven by the tech diagnostic product lines and TheraSphere. Robust demand signals for the diagnostic and therapeutic isotopes support the outlook for over 20% growth this year. In product development, the Canadian Nuclear Safety Commission approved the irradiation of Yttrium-90 and Lutetium-177 using the Target Delivery System with Laurentis Energy Partners at the Darlington site.

On Tc-99, as we discussed last quarter, we've been perfecting the product attributes. Encouragingly, we have line of sight to address the final technical issues that are typical in the scale-up and industrialization phase of complex projects, and I am quite encouraged by our progress. Given the timing, I don't expect a product launch this year, but customer appetite remains strong, and this will be an important addition to our fast-growing portfolio of medical isotopes.

Turning now to commercial power, where demand is accelerating rapidly. In the CANDU market, we have talked in depth about the opportunities in the ongoing life extensions, and the potential for large-scale new-build. Ontario Power Generation and Bruce Power are evaluating options to expand their nuclear reactor fleets to meet increasing electricity demand in the region. While these projects are in the planning stages, BWXT and Kinectrics are trusted partners in the Canadian nuclear market, and are engaging with these utilities now.

For the AP1000, we are bidding on component engineering and manufacturing contracts across a global opportunity set. There continues to be good momentum in the SMR market. In July, the NRC accepted TVA's construction permit application to build a GE Hitachi BWRX-300 at Clinch River in Tennessee, with the review expected to be complete by the end of next year. This would be a giant step in the US SMR market and would

complement the progress in Canada at the Darlington site for which BWXT is manufacturing the reactor pressure vessel and other important components potentially.

In addition to our work with GE Hitachi, we are also working with TerraPower, Rolls-Royce and others as we anticipate multiple follow-on orders in the coming years. Our long history of manufacturing large complex nuclear components and existential and expanding capacity position us as a super merchant supplier to the SMR market.

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

Michael T. Fitzgerald

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

Thank you, Rex. And good evening, everyone. Very happy to be here. I've had a chance to meet with a number of you recently, and I look forward to meeting with more of you in the coming months. I'll start with some total company financial highlights on slide 4 of the earnings presentation.

Second quarter revenue was \$764 million, up 12%, with growth in both segments. Excluding contributions from acquisitions, organic revenue was up 4%. Adjusted EBITDA was \$146 million, up 16% year-over-year, driven by robust double-digit growth in Government Operations, which was partially offset by lower adjusted EBITDA in Commercial Operations. Corporate expense was lower compared to last year, and we continue to expect corporate adjusted EBITDA expense in 2025 to be slightly lower than the \$16.8 million reported last year.

Adjusted earnings per share were \$1.02, up 24%, driven by strong operating performance, complemented by a lower tax rate, foreign currency gains and higher pension income, which were partially offset by higher interest expense due to debt associated with the Kinectrics and A.O.T. acquisitions. Our adjusted effective tax rate was 20% for the quarter, which was lower than anticipated due to various tax credits as well as higher stock compensation expense. Given the lower second quarter tax rate, we now expect our full year tax rate to be approximately 21%. This yields a second half tax rate of approximately 22.5%, which is more in line with our expectation of our tax rate going forward.

Free cash flow in the quarter was a robust \$126 million, driven by good working capital management. Capital expenditures in the quarter were \$33 million or 4.3% of sales due to timing of growth investments being more back-half-weighted during the year. We now expect capital expenditures to be 5.5% to 6% of sales for the year, driven by investments to meet growing end market demand, including the ongoing expansion of our Cambridge commercial nuclear manufacturing facility and infrastructure investments related to defense fuels and Government Operations.

Moving now to segment results on slide 6. In Government Operations, second quarter revenue was up 9%, driven by growth in naval propulsion, timing of material procurements, special materials performance and just over 2% contribution from the A.O.T. acquisition. Adjusted EBITDA was up 23% year-over-year to \$133 million, yielding an adjusted EBITDA margin of 22.6%. This was driven by favorable mix, strong operating performance and favorable contract performance in our special materials portfolio. We continue to expect Government Operations to generate mid-single-digit revenue growth in 2025. However, with stronger margin performance in the first half, we now anticipate adjusted EBITDA margin to be approximately 20.5% for the year.

Turning to Commercial Operations. Revenue was \$176 million, up 24% year-over-year, driven by contribution from the Kinectrics acquisition and double-digit growth in medical, which was partially offset by a modest decline in commercial power, as Rex discussed. Excluding Kinectrics, organic revenue was down 3%. Specific to commercial power, while we had strong revenue growth in components work on the BWRX-300 reactor pressure

vessel and Pickering steam generators, this was more than offset by the expected decline in field services due to timing of key outage and maintenance projects during the year.

Adjusted EBITDA in the segment was \$16 million compared to \$23 million last year. This resulted in an adjusted EBITDA margin of 9.2%. While we had solid margin performance in commercial power components and fuel, this was offset by the decline in field services and growth investments to match the robust market demand. To provide some additional perspective, within commercial power, field services, one of our higher margin business lines, was just over 10% of revenue in the quarter, down from over 35% in the same period last year. This unfavorable mix accounted for over half of the year-over-year margin decline, with the remainder due to unfavorable absorption of higher SG&A given lower revenue in the quarter.

At the segment level, we now expect Commercial Operations revenue to grow over 50% with mid-teens organic growth complemented by the Kinectrics acquisition. However, adjusted EBITDA margin is expected to be 13.5% to 14% compared to the low end of 14% to 15% previously due to growth investment and modestly higher contribution from Kinectrics. Still, our guidance implies significantly improved results in the second half of the year with higher revenue, more favorable mix and the absence of commodity price pressure that acutely impacted our first quarter results.

Turning now to our 2025 total company guidance on slides 7 and 8 of the earnings presentation. We are raising our guidance for revenue, adjusted EBITDA and earnings per share, and increasing the low end of our free cash flow guidance. We now anticipate revenue of approximately \$3.1 billion with modestly better revenue assumptions across the business as well as contributions from a slightly earlier close of the Kinectrics acquisition. Accordingly, we're raising our adjusted EBITDA guidance to \$565 million to \$575 million, up \$10 million at the midpoint as the stronger operational performance in Government and slightly higher revenue in Commercial is partially offset by mix and growth investment, as I previously discussed.

These changes to our operating outlook, combined with a lower tax rate and better pension and other income, yield an increase in our adjusted EPS guidance to \$3.65 per share to \$3.75 per share. This is up about \$0.23 at the midpoint compared to our original guidance, with half of the increase driven by operations and half by the nonoperating items I previously discussed. Lastly, we are increasing our free cash flow guidance to \$275 million to \$285 million, up \$10 million at the low end as higher income and benefits from tax legislation are partially offset by slightly higher CapEx. Overall, we had a strong second quarter and are well-positioned to meet our increased guidance for the year.

With that, I will turn it back to Rex for closing remarks.

Rex D. Geveden

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

Thanks, Mike. Over the past decade as a standalone public company, BWXT has invested both organically and inorganically to enhance our capabilities in the nuclear market. We've built significant industrial scale and our customers are increasingly relying on BWXT to meet their needs. We've had a strong start to the year, both financially and strategically, our backlog is at a record level, demand across our end markets is accelerating, and our intense focus on operational excellence positions us well to continue to drive shareholder value in the years ahead.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from the line of Scott Deuschle with Deutsche Bank. Your line is open.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good evening. Mike, the 10-Q flags a \$29 million favorable contract adjustment, I think, on nuclear operations. Can you clarify any more what that relates to and, if any, if that was assumed in the original guide?

Michael T. Fitzgerald

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

A

Yeah. Thanks, Scott. The \$29 million, as we mentioned in the 10-Q, relates to one of the special materials contracts. Rex mentioned we had strong operating performance in special materials. Scott, as you know, we look at a number of different potential opportunities as we looks to those contracts. So, a portion of that was included in the guide, but I would say it was a little bit more favorable than we had originally anticipated. So, I would say a part of it we assumed in our original guidance.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And then, Rex, do you see any opportunity for BWXT to secure some level of content on new build AP1000s that may be built at some point in the US? And if so, what type of content the company be able to compete for on those reactors?

Rex D. Geveden

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

A

Yeah, I do, Scott. In fact, we have an MOU with Westinghouse to potentially manufacture certain components for the AP1000 in the US market and potentially in other markets. And what we would do there is similar to what we do on CANDU. We're qualified for pressure components, high pressure components like steam generators, heat exchangers. We could make that reactor pressure vessel in our Cambridge plant. So, there's a lot there. And I think, as industrial capacity starts to stretch, we might have some really interesting opportunities there.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And just to clarify, could your content on that potentially be as large as CANDU or would it be still materially smaller?

Rex D. Geveden

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

A

Yeah. I'm not sure if I'd go that far. We'll have to see how that unfolds. For CANDU, of course, we typically get all the steam generators, most of the heat exchangers, feeders and other such content. I'd say it's the same kind of scope of equipment, but I don't know if we would sort of run the table like we do at CANDU.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Rex D. Geveden

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

A

Thank you.

Operator: Our next question comes from the line of Jeff Campbell with Seaport. Your line is open.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Good afternoon. And congratulations on the strong quarter. I thought I'd start with one kind of high level question and then I got a specific for the second. I thought the appointment of Kevin McCoy to Chief Nuclear Officer was clearly important, but it's not clear to me how you will influence bottlenecks that don't historically reside at BWXT. So, any high level commentary you can provide there is certainly appreciated.

Rex D. Geveden

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

A

Yeah. Jeff, I didn't quite catch the question. Would you be good enough to repeat it?

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Sure. I was saying that I noted Kevin McCoy's appointment to Chief Nuclear Officer with interest, but I wasn't really sure what his mandate will be since BWXT is usually not to the point of dragging when we have difficulties getting these projects through. So, just any commentary you can provide on how he's going to influence the...

Rex D. Geveden

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

A

[ph] Oh, I got you now (00:22:46).

[indiscernible] (00:22:48)

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Yeah. Yeah. Thank you.

Rex D. Geveden

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

A

Right. Okay. I understand the question now. Right. So, you're quite correct in the way that title is normally used. And let me just say that that's a bit of a sort of a holding place for Kevin. And the reason for that is that Kevin is seconded to the Department of Defense to help the Deputy Secretary of Defense and the Secretary of the Navy with nuclear shipbuilding. So, he remains an executive employee of BWXT, but he is fully under contract to the Navy. And so, that's the title that he's holding while he's occupying those positions with the Navy. In the

meantime, we've promoted Joe Miller up into President of Government Operations to replace Kevin. So, it's all part of that dynamic, Jeff.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Okay. Yeah. That makes a lot more sense. My other question was, slide 7, the Government Operations margins of approximately 20.5%, that seems well above prior guidance. I just wonder if you could pinpoint some drivers of this improvement and maybe their durability? Thanks.

Michael T. Fitzgerald

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

A

Yeah. So, GO margin for the quarter was impacted by the EAC for the special materials contract that we just mentioned. We also had some really good pacing of work as well as some of the timing of materials, but that was good from an overall margin standpoint. I mean, overall, I would say, we're comfortable and we're happy with some of the efficiencies and utilizations that we're seeing at the plants we think. We're continuing to focus on that from a margin standpoint to create some long-term sustainability there. We'll see continued strong performance for the rest of the year, and we'll give more clarity around what we're expecting in 2026 next quarter.

Jeffrey Campbell

Analyst, Seaport Research Partners

Q

Okay. Great. Thank you.

Operator: Next question comes from the line of Robert Labick with CJS Securities. Your line is open.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Good afternoon. Thanks for taking my questions. And congrats to Mike on his new role.

Michael T. Fitzgerald

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

A

Thank you.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Sure. I wanted to start, Rex, you mentioned this in your prepared remarks, but you had the recent approval by the CNSC to irradiate yttrium and lutetium in your Target Delivery System. Can you talk about the opportunity there, what are the next steps, what it'll take for you to get that through done and produce commercial material?

Rex D. Geveden

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

A

Sure, Bob. Yeah. We're doing that in partnership with Laurentis Energy Partners, as I've said in the script, and the qualification of those products is really up to our partner. They're the ones that have developed the contracts to produce that material for certain clients. And so, we have a bit of a passive role there. We did design and deploy that Target Delivery System. And so, it'll be a royalty opportunity for us.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Okay. Great. And then just switching gears a little bit for my follow-up. You have tremendous amount of opportunities ahead of you, talked about the new SMR growth, Pele buildout, et cetera. Talk about capital allocation, how do you prioritize capital into each of these? What are the big amounts of capital that you need to deploy over the next 5 to 10 years for any of these or other opportunities and how you allocate?

Rex D. Geveden

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

A

Yeah. Maybe I'll start and then flip it over to Mike. We've given broad guidance that 4% for maintenance CapEx surging up to perhaps 5% or 6% episodically depending on the opportunity. We're doing the Cambridge plant buildout right now, which is obviously not maintenance CapEx, and that's sort of 1% of our sales right now. And so, that pushes it up at that 4% to 6% range. And I think that's how we see it.

We don't see in the windshield, Bob, any CapEx super cycles like we've been through, at least at the present moment. So, I think I think you'd see it banded in that range, 4% to 6%. As to how we evaluate, it's obviously business case and we've got so many high-quality business cases right now and so much competition for capital, it's actually pretty tough. But that goes with the abundance of opportunities that we're facing.

Maybe I'll pitch it over to Mike for any additional comments.

Michael T. Fitzgerald

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

A

Yeah, Rex, that's right. I think the only other thing I'd call out is we did raise guidance and expectations for CapEx to 5.5% to 6%. Part of that is driven by some investments we're making around defense fuels related to enrichment. But, as Rex mentioned, we see this and I think we've said before, we anticipate more of tens of millions of dollars in investments in some of these opportunities, but we don't see the same level of significant CapEx that we may have seen in the past.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Super. All right. Thanks very much.

Operator: Our next question comes from the line of David Strauss with Barclays. Your line is open.

Joshua Korn

Analyst, Barclays Capital, Inc.

Q

Hi. Good afternoon. This is Josh Korn on for David. So, you've gotten two Navy contracts now in quick succession. How far out are you contracted for those Navy programs?

Rex D. Geveden

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

A

Those contracts have a performance period of up to eight years. It's typical for the delivery of a full ship set to take between six years and eight years depending on whether that's Virginia, Columbia or Ford. So, eight years from the time we sign the contract.

Joshua Korn

Analyst, Barclays Capital, Inc.

Q

Okay. Thanks. And then want to ask – so, with Kinectrics closing a little earlier than you expected, how much did that contribute to the guidance increase? And then, in the free cash flow guidance, what are you assuming for working capital? Thanks.

Michael T. Fitzgerald

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

A

Yeah. So, we had previously said Kinectrics about midyear. As we mentioned, we look at a number of different scenarios. So, you're right, it was a few weeks ahead of what we had planned. So, part of what you're seeing in the guidance raise relates to that. I would say, though, that that's a smaller portion. If you think about kind of the Kinectrics at an EPS level, it is slightly neutralized by the additional interest expense associated with funding from the acquisition. And so, when you look at it from that standpoint, it's a smaller amount. I think we're – most of the raise really relates to kind of timing and pacing of work as well as our performance in our Government Operations business.

And then, as it relates to kind of working capital, from an overall working capital standpoint, and I don't know if this was specific to Kinectrics, but we are anticipating kind of working capital and free cash flow generation similar to the rest of our business. So, over 80% free cash flow generation specific to Kinectrics.

Joshua Korn

Analyst, Barclays Capital, Inc.

Q

Okay. Thanks.

Operator: Next question comes from the line of Pete Skibitski with Alembic. Your line is open.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Hey. Good evening, guys. Nice quarter.

Rex D. Geveden

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

A

[ph] Hey, Pete (00:30:25).

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Hey, Rex. If I could follow up, I think it was Josh's question on the two naval reactor contracts in the last, call it, six or seven months or so. I feel like historically the Navy is kind of on like an annual pace with you guys, but now we've got kind of a quicker pace, especially this latest one, a pretty sizable award. Can you give us a sense of what's kind of motivating the Navy? Because, I don't know if this is industrial base funding or wage growth or – but I don't really think of you guys as being kind of a bottleneck on submarine construction. Right? So, I'm just wondering if you can give us a sense of kind of what the motivation is here for these size of awards in this kind of compressed timeframe?

Rex D. Geveden

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

A

Yeah. Hey, Pete. That was – so, the way that worked out, this last pricing agreement that we announced, the \$2.6 billion one was really kind of on time. You may remember on the last one that we had a number of delays, and that related to the complexity of that negotiation. And it was complex because we had gone through COVID, had a lot of labor and commodity price pressure, and it took a while to get through that. And so, this one kind of came on time. The prior one came pretty late. So, the pace is still the same. We're still receiving orders to the 30-year shipbuilding plan that the Navy has.

But I would say what's significant about it is, there are concerns about whether or not the shipyards will keep pace with the supply chain. And we have offered that we believe that the Navy's approach is going to be to try to fix the problem at the shipyards and keep the supply chain running at pace. And so, this last pricing agreement kind of validates that thesis. It has two Virginias per year, Columbias now in serial ordering, and then the fourth, the next Ford when it comes. And so, I think it was kind of important from that perspective to say that, at least for us, the supply chain staying on schedule.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Okay. Got it. Got it. So, yeah. So, don't expect the [ph] next one till 2026 it seems like, that's how we should think (00:32:26).

Rex D. Geveden

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

A

That's – yeah, it depends. Sometime it's on two-year intervals, sometime on three. So, we'll see how that unfolds with our customer.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Okay. Okay. And just one follow-up for me. In your prepared remarks, your comments about several advanced nuclear fuel opportunities, I feel like in the past you guys have said that you're not really interested in commercial fuel opportunities. I just wanted to validate if that's still true, these fuel opportunities, are they largely the government at this point?

Rex D. Geveden

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

A

So, not exactly. I'd say there's an interesting – smallish, but an interesting demand signal for TRISO fuel that we're responding to and we can produce that fuel commercially. We're literally the only company that can produce TRISO at any scale. So, there's commercial interest, and I expect we'll get a couple of contracts in that area this year.

And then, I think the other comment was around – the other indication was around – on the front of fuel cycle for the defense enrichment program that we're involved with. Depending on the scale of that thing and how it unfolds, there could be commercial outlets for that material. So, I'd say a couple of opportunities there that are interesting to us.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Okay. Great. Thank you.

Q

Rex D. Geveden

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

You're welcome.

A

Operator: Our next question comes from the line of Andre Madrid with BTIG. Your line is open.

Andre Madrid

Analyst, BTIG LLC

Good afternoon, guys. Thanks for taking my question.

Q

Rex D. Geveden

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

Hey, Andre.

A

Andre Madrid

Analyst, BTIG LLC

Looking at microreactor, I know a lot of moving pieces there, looks like Pele is progressing well. I guess, how should we think about that end market in the near to medium term given the progress on Pele, the loss of DRACO, is there any contribution from JETSON still, just trying to figure out what the moving pieces are?

Q

Rex D. Geveden

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

Yeah. It'd say, Andre, the – so, let me take those by part. For Pele, yeah, it's progressing, we're assembling the reactor core now, as we have discussed. I was at the Pentagon just within the last month talking to a senior official about what the path ahead is for government microreactors, and it looks like [indiscernible] (00:34:50) strategy is going to be a competitive offering to put microreactors at multiple DOD sites. So, this is what we had always hoped. We had hoped that Pele would become a maybe a low rate initial production program with production programs to follow. And I think that can happen. Now, that's certainly in the future, a couple of years. But I think that's the endpoint for it.

A

Concerning DRACO, so DRACO hasn't gone away, just to be clear about that. DARPA withdrew its participation from kind of a joint venture with NASA to develop that nuclear thermal propulsion technology. But the NASA program is going ahead. In fact, the [indiscernible] (00:35:31) appropriation marks for Pele, sorry, for DRACO for nuclear thermal propulsion were \$175 million on the House side and \$110 million on the Senate side. So, it looks like we will have a program going forward through NASA to develop that technology. And I'm actually pretty optimistic about that one.

In terms of JETSON, the other program that you talked about, it's just that – there's a sliver of a program there. It's a small-ish thing. And then we have some other pieces, fission surface power and other such programs. And I think from what I'm hearing, NASA's already gear up on fission surface power pretty quickly. So there's a lot there, and I think we'll have a significant role in some of it.

Andre Madrid

Analyst, BTIG LLC

Q

Okay. That's definitely promising. Good to hear. And then I guess, moving in a different direction, I guess just talking about naval nuclear supply chain more broadly, I think one of your peers talked about the prospect of taking more work off the plates of the shipyards in order to help clear up some of those bottlenecks. Is that something that you guys would ever be interested in doing or is it kind of been there, done that, don't really want to do that anymore? I know this is something that I think you guys have explored before, but I wasn't sure if you were maybe taking a look at it with fresh eyes.

Rex D. Geveden

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

A

I'd say generally it's not of high interest to us if it's not nuclear qualified components. And that work would not be for the most part. So, I wouldn't put it at the top of my list.

Andre Madrid

Analyst, BTIG LLC

Q

Got it. Got it. Okay. No, that makes sense. And one more, if I could squeeze it in, I guess, looking at the supply chain again to stick on that, any further impacts related to zirconium? What're you guys seeing there? Does it look like it's getting better, getting worse?

Rex D. Geveden

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

A

Seems to have leveled out. It certainly went through a spike there, and Mike talked about it in his remarks, it impacted us in the first quarter. It was a modest, a very minor impact in the second quarter. But just as a reminder that zirconium price variability is the reason why we don't accept that risk in our contract, so that passes through to the customer. The impact was merely a timing impact related to how we do the percentage complete contract. So, that comes – that bounces back to us. So, I think first it settle down, second it comes back to us in the end.

Andre Madrid

Analyst, BTIG LLC

Q

Got it. Got it. I appreciate the clarification, Rex. I'll leave it there. Thanks so much.

Rex D. Geveden

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

A

Thank you.

Operator: Our next question comes from the line of Jed Dorsheimer with William Blair. Your line is open.

Mark Shooter

Analyst, William Blair & Co. LLC

Q

Hey, guys. You have Mark Shooter on for Jed. Given all the nuclear enthusiasm and the government support, can you try to place some metric on the engagement level you're seeing now versus a quarter ago or a year ago, maybe on the number of projects you're bidding on actively or maybe an increase of revenue opportunity?

Rex D. Geveden

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

A

Well, hard to answer that one, Mark. I would say, we certainly see high activity in every one of our end markets. Medical has been compounding at 20% per year. The government appetite seems to be stronger than ever. In fact, I've said earlier today that we kind of can outgrow the government business. Commercial power, the opportunities are abundant. Yeah, it's – the markets are just strong everywhere. And we certainly haven't experienced a time like this.

Mark Shooter

Analyst, William Blair & Co. LLC

Q

I Appreciate it. I thought I'd ask. Just switching gears a bit to the TRISO fuel. I think I heard you mention that you expect some contracts by end of the year. Can you wrap that in any kind of unit economics or maybe a capacity? Or can you give us any more color on what we should be expecting there? And is that going to be any significant impact to the financials this or maybe even next year?

Rex D. Geveden

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

A

Yeah. I'd say – I don't want to be specific about timing, and say I would be a little bit cautious about the scale of those. They're small-ish. They're certainly smaller than the Pele contract, fuel contracts. But I think they're interesting because they're the – we're beginning to see a precipitation of modest demand for TRISO fuel on the commercial side. So, it's exciting strategically. It's not big economically yet.

Mark Shooter

Analyst, William Blair & Co. LLC

Q

Great. Thank you, guys.

Operator: Next question comes from the line of Jan-Frans Engelbrecht with Baird. Your line is open.

Jan-Frans Engelbrecht

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

Q

Good evening, Rex, Mike and Chase. The first question I just want to start on the reconciliation bill. There's a lot of big dollars across shipbuilding, the support for the nuclear triad. So just wanted to get your thoughts how you're thinking about that and any sort of incremental orders that you expect [indiscernible] (00:40:42) to BWXT where it wouldn't have existed if there was no reconciliation bill.

Rex D. Geveden

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

A

Yeah, there was – the reconciliation bill was good for us. There was funding in there for a second Virginia for 2026. Of course, there was, if I recall it correctly, \$100 million for defense enrichment, which obviously is right in our wheelhouse and what we're working on with the National Nuclear Security Administration. There was funding that was specific to advanced reactors, you can read that as Pele. There was additional funding for the strategic capabilities office. And so when you stack all that up, I think it was all quite edifying to programs that we have in progress.

Jan-Frans Engelbrecht

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

Q

Great. Thanks, Rex. And then just a quick follow-up on the BWRX-300. Just on that first reactor in Darlington, how should we think about the revenue recognition, sort of when does that peak for the first reactor? And I guess to add to that question, is there the potential for the TVA deployment to sort of leapfrog reactors 2 to 4 at Darlington? So just how should we think about those two sort of locations and just the revenue cadence for reactor 1 on the GE Hitachi design?

Rex D. Geveden

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

A

Yeah. What we said historically on the revenue profile for that BWRX-300 is that, well, first we said the opportunity per BWRX-300 is in the range of \$100 million, and that the revenue profile was kind of evenly distributed over, let's call it, a four-year period. And the reason for that is the reactor pressure vessel [indiscernible] (00:42:22) that we could manufacture tend to be long lead items for those reactors. In fact, we've received the order for the project that was formally approved the provincial government. And so, you could think about it that way.

In terms of the timing for TVA, I don't know if it will leapfrog two, three, and four terms. I mean, I hope so, I hope it goes fast. But I think both of those opportunities – think about that opportunity is probably four more BWRX-300s added to the additional three at Darlington. And so, it remains an exciting opportunity for us.

I would think what would happen is maybe the first reactor at TVA falls somewhere in the middle of all that, but I'm speculating.

Jan-Frans Engelbrecht

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

Q

Okay, great. Thank you. Very helpful. I'll jump back in the queue. Congrats on a strong quarter. Thanks.

Rex D. Geveden

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

A

Thank you.

Operator: And our next question comes from the line of Mike Ciarmoli with Truist Securities. Your line is open.

Michael F. Ciarmoli

Analyst, Truist Securities, Inc.

Q

Hey, good evening, guys. Nice result for the super merchant supplier, Rex. [indiscernible] (00:43:28)

Rex D. Geveden

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

A

[indiscernible] (00:43:30)

Michael F. Ciarmoli

Analyst, Truist Securities, Inc.

Q

Yeah. On the guidance here, I know timing is always hard to predict, but the guidance assumes GO revenues could actually be down second half year-over-year. And I guess even looking at the EBITDA margin run rate, I know you got the positive EAC, but that second half run rate looks like it might be below 20%. You haven't done that in quite some time. Any – was it all just timing? Is there anything going on with the mix of some of these newer programs? Should we just think about more cost plus coming in, or what's the best you can help us with on that weaker second half?

Michael T. Fitzgerald

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

A

Yeah. I would say I don't think we're seeing a major shift in overall mix across the contract portfolio. So, what I would say is we signed a pricing agreement that we mentioned a little bit ahead of schedule. That had a number of advanced material procurements that came into the quarter that we weren't expecting that typically would be in the back half of the year. I would say in addition to that, when you look at kind of the special materials contract performance, typically the fourth quarter is a very strong quarter for us. And in a lot of cases, we're seeing strong performance at that point in the year. We're seeing and we're able to get very confident in kind of our contract performance in Q2, which is where you're seeing some outsized growth in the quarter. So, when we look at kind of the rest of the year, I mean, I think, the way that we look at it, we feel confident in where we'll land, I don't think there's anything individually to call out too much around kind of overall revenue. But I would just say that we're seeing a number of things hit earlier in the year than we typically do.

Michael F. Ciarmoli

Analyst, Truist Securities, Inc.

Q

Okay. [indiscernible] (00:45:27)

Rex D. Geveden

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

A

Maybe I'll just add a footnote to that to – I was just going to add a footnote to what Mike just said, Mike. The operating condition of the plants is good. We've had focused campaign around OpEx with multiple dimensions to it, including factory throughput, lead time, cost of poor quality, price of non-conformances, the name of our program. So, the plants in Cambridge and across Canada, the plants in our NOG complex are performing quite well. I think we just had a very strong over-performance in the first half and it'll normalize a little bit in the second half, but we feel good about our operational performance. So, there's no degradation from that perspective.

Michael F. Ciarmoli

Analyst, Truist Securities, Inc.

Q

Okay. Okay. And then just kind of on that topic, maybe the inverse here, commercial, it sounds like you've got good line of sight to that field services. I thought that was good color, Mike, providing the kind of percent of revenue. But presumably you get a pick-up in steel services and that drives the margin strength in commercial second half?

Michael T. Fitzgerald

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

A

That's right. Yeah. So, we were down seasonally compared to – normally Q2 is a strong quarter for us, but obviously we saw a significant decline, down to 10% revenue in that mix. So, we feel good about where the rest of the year will shake out. And I think we're confident in what we're going to see in field services and the components margins for the next two quarters.

Michael F. Ciarmoli

Analyst, Truist Securities, Inc.

Q

Okay. Perfect. Thank you, guys. I'll get back in the queue.

Operator: And our last question comes from the line of Ron Epstein with BAML. Your line is open.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Hello. Good afternoon, guys. Yeah, maybe just a couple of quick ones. One, when you look at the growth in the backlog, it bumped up a lot. How much of that is because of the acquisition, and how much of that is organic?

Michael T. Fitzgerald

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

A

Yeah. So from – majority of that is going to be organic, if you look at ultimately our book-to-bill for this quarter was 2.2. We have really about \$240 million-ish of backlog associated with the acquisitions, but majority of it was organic.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got it. All right. Great. Great. That's super. Got it. And then one more. We've heard some companies talking this quarter about shortages of critical minerals. Has that been an issue for you guys? Do you see it as a potential issue? And how are you mitigating it or is it just not an issue at all?

Rex D. Geveden

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

A

Yeah. Maybe I'll take that one, Ron. We're not seeing much pressure from that. We did – the zirconium pricing that you saw in the first quarter was a derivative of that problem, but that seems to be settled out – seem to be settling out now, as I've said earlier. Apart from that, we manage our commodity risk pretty well, and aren't that sensitive to critical minerals. Yeah. It's just not moving the needle for us.

Michael T. Fitzgerald

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

A

Yeah. The only thing I would say, I mean, we're not having an issue trying to get in the actual raw materials, and then from a pricing perspective, we typically, and I think we've publicly said in the past that we – our arrangements will have kind of pricing locked in for roughly 70% overall raw materials purchases on our contracts. And that's either due to firm vendor quotes, extended ordering periods, those types of things, and so that's how we're able to manage.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Q

Got it. Very cool. All right. Thank you.

Operator: That concludes the question-and-answer session. I would like to turn the call back over to Mr. Chase Jacobson for closing remarks.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you. Thanks, everybody, for joining today. We look forward to seeing many of you, and speaking with you in the upcoming weeks at investor events or on the phone. And if you have any questions, please feel free to reach out to me at investors@bwxt.com. Thank you.

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

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