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BWX Technologies, Inc. (BWXT)

Q4 2023 Earnings Call

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Analyst, CJS Securities, Inc.

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MANAGEMENT DISCUSSION SECTION

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

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

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thank you, John. Good evening, and welcome to today's call. Joining me are Rex Geveden, President and CEO and Robb LeMasters, Senior Vice President and CFO. On today's call, we will reference the fourth quarter and full year 2023 earnings presentation that is available on the Investor 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'd also note, that we'll be hosting an Investor Day tomorrow in New York City. The event will be streamed live beginning at 8:30 AM Eastern, and you can register on the Investor Relations website at investors.bwxt.com. Because of the Investor Day, we will be focusing our comments on today's call to our fourth quarter and full year results and our 2024 guidance.

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. Good evening to everyone. And I'm looking forward to seeing many of you in person tomorrow at our Investor Day. This afternoon, we reported good fourth quarter results. It was a strong finish to a record year for BWXT with all guidance metrics at or above the targets we originally set. We reported a very strong 16% organic revenue growth in the fourth quarter with double-digit growth in both segments. This brought our 2023 revenue to \$2.5 billion, up 12% compared to last year, with growth across all major business lines.

Adjusted EBITDA was up 13% in the quarter and up 7% for the year. This includes double-digit EBITDA growth in our Government Operations segment and a turn to positive EBITDA at BWXT Medical. This led to fourth quarter adjusted earnings per share of \$1.01, up 8% compared to last year and full year adjusted earnings per share of \$3.02, down slightly from last year, as operating earnings growth was more than offset by non-operating items such as lower pension income reported in other income and higher interest expense as we expected.

Free cash flow for the year was a robust \$212 million, a fact of which we are proud as we have increased focus and improved processes around working capital management. Our efforts here may take time to fully pay off, but we are making good progress and will continue to drive this priority through the business. Underpinning our good financial performance and not always as visible, we are pleased to have achieved some important operational goals in the quarter throughout the year.

First, I want to highlight workforce growth. Over the past year, we reengineered and invested in our talent acquisition process, leading to a remarkable 10% growth in total head count, in line with the aggressive goal we established at the beginning of the year and roughly matching the strong revenue numbers we reported. Considering the growth opportunities we see ahead for BWXT, we view talent acquisition and management as foundational components of our operating strategy.

Looking at our business units, in our special materials franchise within Government Operations, we recently announced a \$122 million, two-year extension of our downblending contract with the Tennessee Valley Authority to support the National Nuclear Security Administration's defense program objectives. This has been an enduring program for BWXT and it will now run through mid-2027.

In the fourth quarter, we were also awarded a \$300 million contract for the manufacturing of naval nuclear fuel through mid-2025. This is the first step in finalizing the other elements of our next multi-year pricing agreement for naval propulsion reactors and components, which we expect to complete once all assumptions on the exact product mix and rates are confirmed by BWXT and our naval reactor's customer.

We continued to expand our special materials portfolio outside of naval fuel and downblending as well, about which you will hear more at our Investor Day tomorrow. This includes strategic programs such as a five-year contract for uranium conversion and purification for the NNSA, and a contract to recycle scrap material from the Y-12 National Security Complex and to high assay, low-enriched uranium, or HALEU, which may serve as feedstock material for the DOE's Advanced Reactor Development Program.

These are highly technical programs where BWXT has a unique competitive advantage, given its licensing and experiential qualifications, further strengthening our position in the nuclear industry and driving future growth. Despite onboarding efficiencies and higher labor costs that we experienced throughout the year, our Government

Operations team performed quite well. Notably, we completed the missile tubes program on a strong footing, despite some challenges along the way. In the fourth quarter, we finished better-than-expected, delivering a positive final EAC related to that closeout and in addition to a final settlement with our customer to account for the previous cost growth that was driven by out-of-scope changes and absorbed by BWXT over the past couple of years.

Finally, we continued to see the benefits from our intense focus on operational excellence initiatives throughout the organization, including remarkable gains in operational equipment effectiveness and the use of digital tools and supply chain management to drive solid, underlying margin performance.

Turning to our Commercial Operation segment. Growth prospects remained strong. In our Commercial Nuclear Power Group, we continue to see robust demand for our market leading manufacturing, engineering and design and field services capabilities. Utilities around the world are increasingly turning to nuclear for their electricity generation needs. As many of you have seen, nuclear was put on the global stage at the COP 28 conference at the end of December, with more than 20 countries signing a declaration to triple nuclear energy by 2050. At the same time, BWXT signed the net zero nuclear industry pledge, along with many other industry participants calling for the same goal.

We expect that this increased focus on nuclear energy and support from the global industrial base will translate into longer term demand for BWXT as countries around the world look to add new grid scale nuclear capacity with small modular reactors and large reactors.

In the larger grid scale nuclear reactor market in which we play, at the end of January, Ontario Power Generation announced that it will proceed with a long-term life extension of its Pickering site units 5 through 8, as the province remains committed to meeting growing electricity demand with clean energy and puts significant investment into its can-do nuclear fleet. This is a significant opportunity for BWXT that will likely provide another 10 years or more of visibility into our existing backlog of life extension work in the region that started almost a decade ago.

We also continued to see growing demand in the SMR market where we are well-positioned as a merchant supplier, which we will talk more about at Investor Day tomorrow.

At BWXT Medical, growth in our base diagnostic and contract drug manufacturing business remained strong in the fourth quarter and throughout last year. Full year revenue in that business was just over \$70million, which is a strong 25% growth compared to 2022. And that is even before sales kick in from our new Tc-99 product line. As we have discussed previously, we continue to see healthy demand for our diagnostic isotopes and expect similar growth in 2024, that will be complemented by increasing sales of therapeutic isotopes such as actinium and lutetium as our customers work to bring novel cancer treating therapeutic drugs to the market. We continue to work with the FDA through the approval process for our Tc-99 generator product and continue to expect commercialization in 2024.

So overall, we had a great 2023 with strong financial performance. We achieved key operational and business development objectives and our end markets continued to gain momentum. This positions us well for 2024.

Our guidance calls for mid-single-digit revenue and EBITDA growth and improving free cash flow performance. Our focus remains on innovation and operational excellence as we work to provide our customers with nuclear technologies to solve their most important challenges in the global security space, clean energy and medical markets. I look forward to articulating our strategy and outlook at Investor Day tomorrow.

And with that, I will turn it over to Robb to provide more detail on our fourth quarter and full year results and walk through the details of our 2024 guidance.

Robb A. LeMasters

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

Thanks, Rex, and good evening, everyone. I'll start with some total company financial highlights on slide 4 of the earnings presentation. Fourth quarter revenue was a robust \$725 million, up 16% organically on a consolidated basis and up about 16% in each segment as well. Adjusted EBITDA was up 13% to \$148 million, in line with our expectations given solid performance from both business segments.

As we had discussed throughout the year, our fourth quarter EBITDA benefited from the closeout and final recovery on our past missile tube contract. At the segment level, our adjusted EBITDA expanded modestly compared to last year, largely driven by improved performance in Medical, which as Rex mentioned, is now in a positive EBITDA position. However, our consolidated adjusted EBITDA margin in the quarter was slightly lower compared to last year. This was mainly due to higher year-over-year corporate costs. I will remind you that corporate costs in 2022 was unusually low, because of retirements, health care underruns and captive insurance releases. 2023 also had a step-up in corporate costs related to digital systems and human capital investments in HR and finance to posture for the exciting growth ahead.

Adjusted earnings per share was \$1.01, up 8% from \$0.93 last year. As you can see in the EPS bridge on slide 5 of our presentation, the majority of our EPS growth came from operations, but was also helped by a lower effective tax rate and a modest FX currency benefit in the quarter, which was partially offset by higher interest expense and lower pension income as was the case throughout the year. Compared to our implied fourth quarter guidance, one-time tax and FX currency benefits contributed \$0.03 to our final EPS result.

Our fourth quarter effective tax rate was 22.5% due to the timing of discrete items around state taxes, including prior year true-ups. Without those true-ups, our tax rate would have been about 23% in the quarter. Our full year effective tax rate was 23.2%, and we expect a tax rate of approximately 23.5% in 2024.

Full year 2023, adjusted EPS was \$3.02, down from \$3.13 in 2022. The EPS bridge on slide 6 of our earnings presentation shows a similar trend to that of our fourth quarter results. Operationally, 2023 adjusted EBITDA was up 7% year-over-year, although this was offset by the lower pension income and higher interest expense that I previously mentioned.

Free cash flow was certainly a bright spot for us in the quarter and we believe that we have now turned the corner and we'll see an upward climb in free cash flow. Free cash flow was \$171 million in the quarter and \$212 million for the year, up significantly from 2022. This was driven by strong working capital management and some modest positive collections late in the quarter that ultimately led to a solid beat versus our initial target of about \$200 million that we provided in early 2023, which was the first time we had guided free cash flow in our history.

Our capital expenditures were \$150 million for the full year. This was consistent with maintenance CapEx requirements and select investments to support growth in our microreactor programs. We will provide a deeper dive into our longer-term expected free cash flow growth prospects at Investor Day tomorrow.

Moving now to the segment results on slide 7. In Government Operations, fourth quarter revenue was up 16% to \$602 million, driven by growth in nearly all of our business lines. Adjusted EBITDA in the segment was \$131

million, up 13% from last year. Government Operations EBITDA margin was 21.8%, down slightly from 22.4% in the fourth quarter of 2022.

First, I will note that while we recognize the missile tube recovery in the fourth quarter of 2023, last year's fourth quarter also benefited from strong EAC performance. The elements that contributed to the modest year-over-year margin decline were, one, outsized growth in our cost reimbursable microreactor projects and in our new special materials programs. Two, we continued to experience labor inefficiencies related to the rapid growth of our workforce. And three, on a relative basis, we had a modestly lower contribution from technical services income.

In Commercial Operations, revenue was up 16%, driven by increases in commercial nuclear field services and nearly 40% Medical growth. That was partially offset by lower commercial and nuclear component volume, mainly because of timing.

Fourth quarter Commercial Operations adjusted EBITDA was \$21.3 million compared to \$13.6 million last year. The increase was largely driven by improved profitability in Medical. Commercial Operations EBITDA margin was 12.9% in 2023, which we anticipate will trend toward the mid-teens throughout 2024 as commercial nuclear field services mix is less of a headwind and the benefits of higher margin Medical sales contribute more to the segment's overall margin profile.

Turning now to our 2024 guidance on slide 8 and 9, which is generally in line with the preliminary outlook we provided last quarter. On the topline, we expect mid-single-digit revenue growth to over \$2.6 billion with growth in Commercial Operations outpacing that of Government Operations. Government Operations growth is expected to be in the low-to mid-single digits as increasing production of Columbia Class submarines, growth in microreactors and higher special materials revenue is offset by the low and aircraft carrier work due to the cadence of the Navy's ship ordering schedule.

Commercial Operations revenue is expected to grow in the high-single to low-double digits, with solid growth in commercial nuclear, complemented by accelerating growth in Medical. We also expect adjusted EBITDA to grow mid-single digits to approximately \$500 million and an EBITDA margin of about 19%, in line with the 2023 level.

The impacts of program mix and the absence of any recoveries we experienced in 2023 and the non-naval components business, will lead to slightly compressed Government Operations margin on a year-over-year basis. This will be offset by higher Commercial Operations margins. We project this will lead to adjusted earnings per share of \$3.05 to \$3.20.

Included in this forecast is a DNA step-up of approximately \$10 million, slightly lower other income and a tax rate of approximately 23.5%. At this juncture, we expect earnings per share to be slightly weighted toward the back half of the year. On a quarterly basis, we would expect relatively consistent EPS performance in the first and second quarters and building thereafter.

Lastly, we expect free cash flow growth to be in the range of \$225 million to \$250 million, reflecting about 80% free cash flow conversion at the midpoint. This will be driven by further working capital improvement and disciplined capital expenditure investments.

We expect CapEx to be about flat to slightly lower compared to 2023 as we manage our maintenance CapEx at around 4% of sales with select near-term and visible growth investments, pushing that to near the level we saw in 2023. As I mentioned, we believe we have turned the corner and are now at a point where we will see steady increases in free cash flow growth ahead.

To sum it up, we had another solid quarter to end a strong year and expect continued growth in 2024. Demand trends across our global security, clean energy and medical end markets remain strong, and our unique capabilities and infrastructure position us well to benefit from these trends. We are committed to driving more predictable earnings and free cash flow conversion with a balanced capital allocation approach that we believe will continue to drive meaningful shareholder value.

I look forward to seeing many of you and providing a more in-depth perspective on our strategy, growth prospects and financial targets at our Investor Day tomorrow.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Thanks, Robb. Before I turn it over to John to open the line for Q&A, I would kindly ask that you please limit your questions to our fourth quarter and full year results and our 2024 guidance, as we'll be providing more in-depth commentary on our outlook and strategy tomorrow. Ready to open it up for Q&A, John.

QUESTION AND ANSWER SECTION

Operator: Thanks, Chase. [Operator Instructions] Your first question comes from the line of Bob Labick from CJS Securities. Please go ahead.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Good afternoon. Thank you for taking our questions. We're looking forward to seeing you tomorrow as well.

Rex D. Geveden

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

A

Great. Thank you, Bob.

Robb A. LeMasters

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

A

Look forward to seeing.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Sure. Yeah. So, to stick with your rules, I'll just ask about next year. Can you – you obviously had very strong growth in BWX Medical (sic) [BWXT Medical] (00:20:30) this year in getting to EBITDA breakeven or better, and I think you were forecasting as equally strong or very strong growth in Medical next year as well. Can you kind of dig down a little and talk about which isotopes are driving that or which like related drugs are driving that, and how much, if any, moly do you have baked into your Medical growth for next year?

Rex D. Geveden

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

A

Yeah. I'll take that one, Bob. So, really, all the product lines are growing within Medical are the diagnostic side of the portfolio where we have germanium, strontium is growing very strongly. Of course, we're in the actinium market. I think, it's correct to say, we're the only commercial supplier of actinium in the market today. And so that's been a good product for us. And TheraSphere, which is a contract manufacture product from Boston Scientific, continues to kind of gallop along and compounded at a 10% rate. So really, all the products across the portfolio are growing quite nicely.

We don't – and I think we've said this before, we didn't forecast any Tc-99 in the 2024 year. Maybe flip it over to Robb for any additional comments.

Robb A. LeMasters

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

A

No, I think that's right. Well, we don't require any meaningful contribution for Tc-99 to hit the forecast that we laid out for you earlier today.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Okay. Super, great. And then, I guess, just last one for me, I'll jump back in queue. How are you treating the Hanford Tank project in guidance and what are the other kind of big wildcards that could impact the year, given almost everything else is pretty much locked in and strong with your strong visibility?

Rex D. Geveden

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

A

Yeah. I think, that's right. We do have actually the year, if you'll note, we gave a range of \$0.15 this year, whereas in prior years, we've given as much as \$0.20. I think we have increased fidelity just on our overall forecasting process. So, I'd note that. I would also say, you're right, there are not a lot of wildcards that we have this year. We have a pretty predictable set of businesses. We're doing the same thing, Bob, in our guidance, where we essentially, predict a set of items that we probability in time adjust. One of those would be Hanford.

We have included something in there and probability adjusted, but it's really not meaningful. And if, just like last year, right, certain items fell out, certain items came in. And so that's not something again, like Tc-99 that we're sort of biting our nails about. If that comes in, I'm sure something else will fall out. So, we're kind of have a lot of sticks in the fire and we have multiple ways to get there.

Robert James Labick

Analyst, CJS Securities, Inc.

Q

Super. Thanks so much. Looking forward to see you tomorrow.

Rex D. Geveden

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

A

Yeah. See you tomorrow.

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

Peter J. Arment

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

Q

Yeah, good afternoon, Rex, Robb, Chase. Hey, Rex, thanks for your color on the Pickering commentary. Is that – when they do the units 5 through 8, is that something where we actually start to see backlog this year associated with that? Thanks.

Rex D. Geveden

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

A

Yeah. I'd say, a modest amount of backlog for that this year. As you know, from our business characteristics, Peter, we tend to be involved in both on the Navy side and the commercial side, we tend to be involved in some of the advanced procurement or long lead items. So, we expect to make, for example, steam generators for those Pickering reactors and there are 48 in total for those four. And so, yeah, I think, we'd start to see a little bit of a ramp on that this year.

Peter J. Arment

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

Q

That's great. And then, just Robb, just quickly, just so I understand on the Medical, it's great to see that's turned profitable. So, I assume that then because there's no Tc-99 kind of baked in this year that we wouldn't see any of that depreciation cost kind of kicking in that you had originally talked about way back?

Robb A. LeMasters

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

A

That's right. Well, we talked about even on the last call or the call before, was the fact that the depreciation comes on, first of all, in a couple of phases, it's not all one block. So, kind of phases in, in terms of different assets getting deployed. And then, the assets getting deployed is really mostly based on commercial activity. So again, if we're just running samples for ourselves or getting into the market and we're not commercial yet, we don't turn on that depreciation.

So, to the extent that we were successful and get in the market, say, in late-2024, yeah, that would come as a little depreciation and frankly offset that sale. So that's why it's not meaningful for ultimately hitting, say our EPS target, because do how you get the sales or you get the DNA at the same time. So, it sort of will ramp up slowly from a profit standpoint.

Peter J. Arment

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

Q

Appreciate all the color and look forward to tomorrow. Thanks, guys.

Robb A. LeMasters

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

A

Yeah. Thanks, Peter.

Rex D. Geveden

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

A

Yeah, thanks.

Operator: Your next 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.

Rex D. Geveden

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

A

Hey, Scott.

Robb A. LeMasters

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

A

Hey, Scott.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, Robb, how large was the missile tube recovery that you received in the quarter? I think, the 10-K talks about a \$28 million benefit from non-nuclear components, so I wanted check if that was the right number?

Robb A. LeMasters

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

A

Yeah. That's not. So first, the EAC disclosure, you'll see a couple of different elements we break out in there. One of them is the non-naval components, and then there is a just a total company number in there. You're right that we attributed that to the non-naval component business and we don't really want to break that down just given the sensitivity around customer, Navy and so forth. But let me help you with that a little bit.

Ultimately, that number that you quoted right there includes a couple of different elements that we talked about in the transcript. We did successfully recover the amount and then, some from 2022, I think, I continually pointed people to that \$11 million number in 2022 in the second quarter, we were successful, let's say, at recovering that and then a little more. And then, we did have a successful performance overall on that contract.

So, as you close those out, as you know you really scrub where your EAC lands. And so that was also a meaningful component to that ultimate EAC item that you talk about. But I like to just leave it there, just given the sensitivity around the customer and the negotiation and other competitors in this market.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Yeah. That's really helpful. And then, Rex, I was wondering if you could quantify at all how large that actinium line was in 2023, either in terms of revenue or doses. Then curious if that might be the fastest growing product line of BWXT Medical in 2024 in dollar terms and whether or not you might be able to shed some light on that? Thanks.

Rex D. Geveden

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

A

Yeah, I think we might decline to breakout the products, the product line on a sales basis. But I would say, that actinium is certainly a fast-growing product and we expect some meaningful revenue contribution in 2024 from that.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then, I mean, if some of these Phase 3 trials are successful with actinium and you're the only commercial supplier, I mean, could the market opportunity here be potentially larger than technetium with better margins or am I being too wishful thinking in that? Thanks.

Rex D. Geveden

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

A

Yeah. I think any one product within therapeutics, we still have a lot of hope for the Tc-99. So, I think we've laid out where our targets are there. I think actinium and lutetium as well as just to be clear, the past diagnostic portfolio, which really follows what happens in the therapeutics, right, they're [ph] theranostic (00:28:15) category, we're going to talk about that a lot tomorrow. That's been a huge growth driver for us. That's germanium specifically within our portfolio as well as just pull through of other items. But tomorrow, we're going to walk you through is, exactly what you said, which as you move from call it, Phase 1 to Phase 2, Phase 3, you're still only having patient samples of, call it, 500 patients, maybe.

As those turn in 2026 and 2027, you get multiples, right, thousands of commercial patients. And so, the scale goes up meaningfully. So, to address your specific question about the size of the actinium or lutetium line, it's small but it can explode meaningfully when you actually convert from a sort of a Phase 3 to a commercial trial. And we see that, you can read around. A lot of those are predicted in kind of the 2026, 2027 timeframe. And so, that's when we'll get more isotopes and hopefully, even some contract drug manufacturing alongside that.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. And last question, just Rex, maybe you can shed some light on what's currently adding to the approval timeline on Tc-99 and whether or not you might be able to commercialize that before the fall, when I think a lot of the forward year sales go on contract? Thank you.

Rex D. Geveden

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

A

Yeah. There's no change in that. I think we've been saying consistently that we expect approval here in 2024 and we're still on that track.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thanks, guys.

Rex D. Geveden

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

A

Thanks, Scott. See you tomorrow.

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

Jordan Lyonnais

Analyst, BofA Securities, Inc.

Q

Hey, good evening. Thanks for taking the call. Just a question on the defense business. We're hearing from other naval suppliers, the Navy is starting to have discussions about CapEx reimbursement. HI did report it, other suppliers are saying they're in talks. Is that something you guys are hearing too, or would you expect to benefit from it?

Rex D. Geveden

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

A

So maybe, Jordan, I'll take that one and maybe give a little broader perspective here and change altitude from your question. I'd say, first off, you know, remember that for BWXT, our reactors and fuel are long lead items for those submarines and aircraft carriers. And so, we frankly had to get out front of those capital needs before the shipyards did. And so, if you look at our buildup to the two Virginias with the Columbia on top of that and then, we went through that two carrier buy and actually, had to put considerable capital in for that. So, we got ahead of that and that was one of our major capital campaigns. And so, that's kind of done for us. And we were frankly, ahead of that submarine industrial base funding activity.

And so that's where we've been and we're sort of well-equipped to deal with the volume that we see out there ahead. That said, as some new scope comes in, for example, the AUKUS program as an example or accelerated Columbia, then we would certainly have discussions with our customer and do have discussions with our customer about where's the most appropriate place to bear the capital load. So those discussions do go on. But I would say that we certainly got ahead of the capital issue relative to the shipyards.

Jordan Lyonnais

Analyst, BofA Securities, Inc.

Q

Got it. Thank you so much.

Rex D. Geveden

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

A

You're welcome.

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

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Hey, good evening, guys. Thanks for taking the questions. Rex, just back to Tc-99 and the FDA process, what's sort of the back and forth right now? What's the dialogue like? Is there any surprises with what they're requesting or what you're doing or anything new there? I know you're talking about the approval later this year, but any color you can give us?

Rex D. Geveden

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

A

Yeah. There's really nothing new there, Michael. We had some findings from the FDA and some issues to work down, including some equipment modifications to run, some reference batches and all that sort of thing. And we're just sort of grinding right through that. So, I'd say, it's absolutely on track relative to everything we've said for the last several quarters. No change in posture at all.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Okay, perfect. And then, I guess, Robb, just as we think about 2024 and specifically, the revenue growth in Government, I think the initial view may have been a little bit more conservative. Can you give us any sense as to what's really kind of picking up some momentum in that portfolio? Is it more the microreactors, some of the new start programs, or just kind of give us a sense what's kind of really offsetting some of those headwinds from the carrier?

Robb A. LeMasters

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

A

Yeah, I can. Thanks for the question. Yeah. On the topline within the Government business in general, we're seeing a couple of drivers that contributed to the outsized performance in Q4 and will roll through in 2024. To name a couple of those, they're outside of the core naval business, frankly. On the non-naval side, we're really ramping DRACO nicely. So that's our space microreactor program as you know. We've learned a lot from Pele in terms of standing up the supply chain and getting after that, and that allowed us to spend capital and then hire people efficiently and get the materials we need to get working.

So, you saw some pretty good growth in that in the fourth quarter and I think that's going to roll through. Now those are cost reimbursable programs. So that's one of the sort of drags on margin. But that to me that's a good news story to be ramping those quickly and serving our customer well.

Then on the special materials business that we've been talking, we're going to spend a lot of time on that tomorrow in terms of our key capabilities around processing and handling. I think a lot of people think about that as a fuel business and a downblending business. But now we've landed this terrific program around new metal where we're recovering HALEU scraps and turning those over to ARDP winners, we have other prospects to expand that franchise. So, within that special materials portfolio, we do have mature programs. And so that's good margin.

But again, as you're bringing on new metal or you bring on HALEU, that comes with good revenue as you're standing that up. But our new [indiscernible] (00:34:48), right, so that has implications also which we talk about from a topline and a margin perspective. Those are notable. And then just the core NOG, legacy NOG business is doing well. It's coming with revenue. We've got the workforce now, as we talked about hiring, 10% net workforce overall as a company, really is going to allow us to grow the topline nicely in 2024 in all of our business lines in NGO, but particularly and the ones I've named as well as just the core shipbuilding, naval propulsion business.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Got it. Helpful. And then, just last one, I know you guys aren't wildly impacted by the budget environment continuing resolution, but any risk that we should be aware of even looking at 2025? I know they're kind of thrown out there, maybe one Virginia Class, although that seems to be a function of just kind of what the supply chain can handle. But any thoughts there?

Rex D. Geveden

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

A

Yeah. Maybe just the broad thoughts here, Michael. Maybe to frame it a little bit. Of course, some of our business is naturally completely insulated from that noise. Our Commercial business in Canada, we've got a little footprint in the UK. But to the extent that our Government programs are affected by continuing resolutions or stalling out

actions on appropriations, and just every program in our portfolio is a program of record. I mean, that's meaningful, everything from Pele to our Navy programs and certainly our national security programs with the NNSA.

So that doesn't – those CRs don't influence our business very much, because those are crucial programs on multi-year money. I would say, the one place that might affect us and you can talk to Suzy Sterner about this tomorrow, the one place that can affect this is the DOE side clean up type work where you might have a funding break and go into sort of a stand down mode. So those kind of things can and have happened in the past. But overall, our business is really pretty well-insulated from that kind of action.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Q

Okay. Got it. Thanks, guys. I'll see you tomorrow.

Rex D. Geveden

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

A

Yes.

Robb A. LeMasters

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

A

Thanks, Michael.

Operator: That concludes our Q&A session. I would now like to turn the call over back to Chase Jacobson for a brief closing remarks.

Chase Jacobson

Vice President-Investor Relations, BWX Technologies, Inc.

Yes. Thanks everybody for joining us today. We look forward to seeing and speaking with many of you tomorrow and at upcoming investor events. If you have any questions, you can reach me by phone at 980-365-4300 or by e-mail at investors@BWXT.com. Thank you.

Operator: This concludes the BWX Technologies fourth quarter and full year 2023 earnings conference call. Thank you for participation. You may now disconnect.

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