

24-Feb-2025

# BWX Technologies, Inc. (BWXT)

Q4 2024 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to BWX Technologies' Fourth Quarter and Full Year 2024 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.

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**Chase Jacobson**

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

Thank you, Gail. Good evening, 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 fourth quarter 2024 earnings presentation that is available on the Investors section of the BWXT website.

We will also discuss certain matters that constitute forward-looking statements. These statements involve risks and uncertainties, including those described in the Safe Harbor provision found in the investor materials and the company's SEC filings. We will frequently 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. This afternoon, we reported better-than-expected fourth quarter earnings, capping off another strong year for BWXT. We generated record revenue, adjusted EBITDA, adjusted earnings per share and free cash flow, all meeting or exceeding the full year guidance metrics we set last year. Demand in our end markets is unprecedented, major players in national security, clean energy and medical end markets view nuclear technologies as novel solutions for their mission needs. BWXT is well-positioned to benefit from this accelerating demand, which drove our extremely strong fourth quarter and full year bookings.

We ended 2024 with a backlog of \$4.8 billion, up 21% year-over-year from large contract awards in both of our operating segments. In addition to the focus on growth, we are obsessive about improving the business in all its aspects. Internally, we call this the BWXT Battle Plan. It has five elements that intertwine with one another, which are sustain and grow the core, invest strategically, expand into adjacent markets, drive performance and deliver the mission. The battle plan is our operating system, and I use it to communicate our purpose and to drive the focus on execution every day.

With that backdrop, let me take a few minutes to highlight how we are executing under this framework and how this is positioning BWXT for continued success in 2025 and beyond. First, we are investing strategically, organically and inorganically across our business lines. These investments create capacity, expand our capabilities with new products and services, and importantly, increase customer confidence in choosing BWXT to support their most critical needs.

In Government Operations, we recently completed the expansion of the BWXT Innovation Campus, the home of our advanced nuclear business line. This facility, located adjacent to our naval reactor manufacturing plant in Lynchburg, Virginia, is home to over 300 employees and has state-of-the-art capabilities for the design and manufacturing of microreactors and advanced nuclear fuels for defense and commercial applications. We have spoken extensively about the major investments in our naval nuclear propulsion manufacturing plants. While the largest are behind us, we continue to make these strategic investments in our infrastructure to meet the current and future demands of our naval reactors customer. This includes maintaining a steady production rate of Virginia-class reactor cores, increasing the cadence of Columbia-class submarine production as we enter a serial ordering pattern over the next decade and capacity expansion for AUKUS.

Further, in the first week of the New Year, we completed the acquisition of A.O.T., expanding our special materials business line into the depleted uranium assay with exciting new capabilities in R&D, prototyping, testing and production for major customers, including the Department of Energy and Department of Defense. We are already uncovering interesting opportunities at A.O.T. that would drive growth beyond the acquisition business case.

In Commercial Operations, it is a similar story. The demand signals in commercial nuclear power and medical markets are strong and visible and we are investing in plant capacity and workforce to address that demand. The ongoing expansion of the Cambridge manufacturing plant just outside of Toronto positions BWXT to pursue more projects for large, heavy nuclear equipment. Beyond this investment, we are assessing options for additional capacity in North America as demand from utilities and non-traditional high tech buyers for green baseload power generation precipitate.

In early January, to complement and enhance our commercial nuclear power business, we announced an agreement to acquire Kinectrics, Incorporated, which we expect to close in mid-2025. Kinectrics offers a

comprehensive specialty service portfolio to commercial nuclear players globally, covering key stages of the project lifecycle that we have coveted from reactor design and site licensing on the front end to testing analysis and materials management throughout the life of a plant, through to decommissioning support at the end of a plant's life. We have received unequivocally positive feedback on the announcement from our customers, whom we will be able to serve more effectively with a larger portfolio of services.

Kinectrics also has an interesting play in nuclear medicine isotope irradiation services and stable isotope enrichment for the production of the most important oncology radiotherapeutic on the market, Lutetium-177. This complements BWXT's capabilities in isotope production systems and processing and provides us exposure to the largest and most advanced pipeline of drugs in nuclear medicine.

Our investments extend beyond operations. Over the last year, we have taken on a full digital transformation initiative, including cloud migration, better collaboration tools, ERP consolidation, elimination of redundant on-premise IT systems and vastly improved financial integration tools enabling faster and better decisions – business decisions. Overall, our investments to enhance capabilities, drive growth and improve efficiency are paying off. Yet we remain committed to an active and disciplined capital deployment strategy.

How does all this translate into our results and future growth? As I noted, in 2024, we achieved record financial performance. Adjusted EBITDA grew 6%, adjusted earnings per share were up 10%, and free cash flow was nearly 20% higher, driven by strong operations and supported by many of the financial initiatives Robb and his team have implemented.

In Government Operations, despite multiple severe weather disruptions and a tough year-over-year comparison, we delivered revenue and adjusted EBITDA growth in line with our expectations. We continued to hire and drive productivity through lean manufacturing processes and increased use of technology, mitigating the impact of higher labor cost and a business mix shift toward less mature and therefore lower margin programs. During the year, we delivered multiple critical components to naval reactors and drove progress in our microreactor and special materials programs such as Pele, DRACO and new metal processing.

In the fourth quarter, we booked our next pricing agreement for naval propulsion reactors and components. Through the year, we also secured several long-term technical services contracts. In November, we took responsibility for management and operations at the Pantex site. And just today, we assumed full responsibility for environmental restoration at the Hanford tank site after a successful four-month transition period. Both contracts boost the bottom line and provide added earnings visibility over a multiyear period.

Further, in September, we announced that BWXT was the sole awardee of a contract to study the buildout of a national security enrichment plant, a vital strategic capability that the US does not presently possess. This could blossom into a new and exciting long-term opportunity for BWXT, which would enhance the security and energy independence of the United States. These wins with our existing book of business provide a foundation for continued growth in Government Operations in 2025.

In Commercial Operations, we delivered double-digit revenue and adjusted EBITDA growth in 2024, driven by strong growth in the commercial power and medical end markets. Commercial power revenue grew by more than 10%, driven by steam generator deliveries and services to the Bruce Power Life-Extension project, which will persist through the early-2030s. We are entering the final phases of the Darlington refurbishment, one of the highest performing nuclear projects in the world over the past decade. We are particularly proud of this project as it serves as a proof point against the misapprehension that all nuclear projects experience cost and schedule overruns.

The positive precedent set by these projects led OPG to commit to extending the life of its Pickering B reactors, for which BWXT has been selected to provide 48 steam generators. Finally, earlier in the year, we were awarded a contract to manufacture the reactor pressure vessel for the BWRX-300 small modular reactor project at the Darlington site. And we continue to anticipate multiple follow-on orders in Canada, USA and Europe. Having booked the RPV and a considerable portion of the Pickering contract in the fourth quarter, Commercial Operations enters 2025 with a record backlog of \$930 million, up 19%, supporting our expectation for another year of double-digit commercial power revenue growth.

Looking ahead, the opportunity set in commercial power is rich, to say the least. In Canada, Ontario Power Generation recently announced that it is assessing adding up to 10 gigawatts of new nuclear capacity at Port Hope. Bruce Power is evaluating technologies to add up to 5 gigawatts of new capacity. And in the United States, the Tennessee Valley Authority, along with a group of industry partners, including BWXT, announced that it is seeking DOE support to build SMRs at the Clinch River site.

BWXT Medical continued its strong growth trajectory. Revenue grew 23% in 2024 and EBITDA turned more meaningfully positive. This was driven by CDMO and pet diagnostics business lines and increased sales of therapeutic isotopes for actinium-225 clinical trials. We signed our second Tc-99 commercial agreement with a key distributor during the fourth quarter, further affirming industry appetite for our brand and our product and keeping us on track for contracted volumes in 2026. Overall, we expect 2025 Medical revenue to grow at a similar rate to 2024.

In conclusion, we are executing on our strategy and delivering the forecasted growth. Demand for nuclear solutions is strong, and we are driving performance through the organization to maintain our competitive edge, improve financial performance, serve our customers and build on the momentum we have generated.

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. Fourth quarter revenue was \$746 million, up 3% organically, with growth in Commercial Operations offsetting a modest decline in Government Operations. Adjusted EBITDA was \$130 million compared to \$148 million in the same quarter last year, as growth in Commercial Operations was offset by lower Government Operations and timing of quarterly corporate expense accruals. Corporate EBITDA expense in the quarter was higher, primarily based on the timing of healthcare and other expenses, following several quarters of below-average expenditures.

On an annual basis, corporate EBITDA expense was \$16.9 million, slightly lower compared to 2023. In 2025, we expect another slight decline in corporate EBITDA expense. Adjusted earnings per share were \$0.92 compared to \$1.01 last year due to the operating items previously discussed. This was partially offset by slightly higher pension income and lower interest expense, as well as a lower tax rate.

Last quarter, I applauded the efforts of our tax team, which has been hard at work finding ways to improve our tax rate. After a thorough evaluation and in-field analysis of certain expense activities, we determined that many tasks that we engage in are considered qualified research expenditures under IRS definitions. This effort will release meaningful cash tax savings as we amend returns and recover money for past tax years. This will permanently reduce our tax rate by over 100 basis points per year compared to historical levels.

As such, we recognized a \$6 million benefit to our tax provision in the fourth quarter on both a GAAP and non-GAAP basis related to this favorable tax planning change, which accounts for the accruals for fourth quarter as well as what we should have been accruing over the course of the year. This led to an adjusted effective tax rate of 18.9% in the quarter and 21.7% for the full year, a favorable outcome compared to our guidance of approximately 23%.

In addition to the benefit related to the 2024 tax provision, we also recorded a roughly \$7 million benefit to GAAP earnings only for refunds we expect for the 2020 through 2023 tax years. Said differently, we have excluded the positive benefit from prior years from our non-GAAP results as we deemed it to be non-recurring. As we look to 2025, we expect our tax rate to be approximately 22%, a notable decrease from the 23% to 24% we observed in 2022 and 2023, however, slightly higher than 2024's non-GAAP tax rate of 21.7%. This slight increase is due to a geographical earnings mix shift toward Canada, a higher tax jurisdiction compared to the US, given our expectation for outsized organic growth in Canadian commercial nuclear power and medical operations.

Free cash flow in the quarter was \$224 million, bringing full year free cash flow to \$255 million, up 20% year-over-year. During the quarter, our intense focus on working capital management and timing of cash receipts associated with strong bookings allowed us to exceed the high end of our original free cash flow guidance.

Our capital expenditures in 2024 were 5.7% of sales or \$154 million, in line with our expectation. In 2025, we anticipate capital expenditures to remain in the range of 5% to 6% of sales as we continue to see our maintenance CapEx at 4% and anticipate spending 1% to 2% on select growth initiatives. Major capital projects in 2024 will include the previously announced expansion of our Cambridge commercial nuclear manufacturing plant, as well as incremental capital investment into our US facilities, including the support of increasing production of Columbia-class submarine reactor cores, as Rex mentioned.

I would note several – similar to several other defense peers, while heightened investment in certain naval programs runs through our CapEx, it is often recovered through operating cash flow or working capital releases. Despite likely higher capital expenditures, we expect another strong year of operating cash flow, leading to free cash flow growth in 2025. We anticipate \$265 million to \$285 million of free cash flow as we continue to progress toward our medium term target of 90% free cash flow conversion.

Moving to the segment results on slide 7 (sic) [6] (00:16:36). In Government Operations, fourth quarter revenue was down slightly to \$295 million (sic) [\$595 million] (00:16:42). Adjusted EBITDA was \$117 million, leading to adjusted EBITDA margin of 19.6%, down from last year, mainly due to a tough comparison and shifting mix toward less mature programs. On an annual basis, Government Operations revenue was up 8% and adjusted EBITDA was up 3%, yielding adjusted EBITDA margin of 20.2%, consistent with the guidance we provided over the last several quarters of slightly higher than 20%.

Our underlying performance in our largest facilities, as measured by efficiency and utilization, remains solid. However, our year-over-year margin comparisons continue to be impacted by mix shift toward cost reimbursable microreactor projects and contracts that are earlier in their lifecycle, providing less opportunity to recognize cost savings. We anticipate that this dynamic will remain with us through 2025, and therefore, we expect GO segment margin to be relatively flat compared to 2024.

Turning to Commercial Operations, revenue was \$152 million, up 23% year-over-year, with double-digit growth in commercial power and medical. Adjusted EBITDA in the segment was \$23.7 million, up 11% as good execution and improving medical profitability was offset by mix with less outage work in the quarter and growth investments.

Turning now to our 2025 guidance on slide 8 and 9 of the earnings presentation. On an organic basis, our operating assumptions are generally in line with the preliminary outlook we provided last quarter. However, we have also included a contribution from the Kinectrics acquisition, which we are still targeting to close in mid-2025.

On the top line, we expect revenue of approximately \$3 billion. In Government Operations, we expect mid-single-digit growth consisting of low single-digit organic growth plus a contribution from the acquisition of A.O.T. Organic growth will be led by our special materials business with flatter revenue in microreactors and naval propulsion as we enter our second year of the Ford carrier law.

In Commercial Operations, we expect significantly higher revenue with mid-teens organic growth, plus a contribution from the pending acquisition of Kinectrics. As a reminder, we expect Kinectrics to generate revenue of slightly more than \$300 million annually in 2025, with approximately half of a year included in our guidance given an expected midyear closing. This continues the mid to high single digit organic growth trend Kinectrics has exhibited the past couple of years as an independent company. Additionally, I will note that our commercial operations guidance includes a foreign currency translation headwind of approximately 5% due to the strength of the US dollar versus the Canadian dollar.

For adjusted EBITDA, we are guiding \$550 million to \$570 million inclusive of solid organic growth, plus the incremental contribution from A.O.T. and Kinectrics. As mentioned, in Government Operations, we expect EBITDA to grow at a similar rate to revenue. And in Commercial Operations, we anticipate EBITDA margin to be in the 14% to 15% range, compared to 14.1% in 2024 as the increase of higher margin medical sales will be somewhat offset by the large contribution of acquired commercial power revenue. Moving to non-GAAP EPS, we are introducing 2025 guidance of \$3.40 to \$3.55.

As you can see in the detailed guidance bridge on slide 9 of our presentation, we expect higher EBITDA to be largely offset by non-operating items, including a roughly \$0.08 headwind from lower pension and other income and \$0.08 to \$0.10 from higher interest expense related to the funding of the A.O.T. and Kinectrics acquisitions.

I will also note that beginning in the first quarter of 2025, our non-GAAP EPS will exclude acquisition-related amortization for these two acquisitions. Looking at the quarterly cadence of earnings, we expect first quarter EPS to be flat to up modestly year-over-year. Beyond that, we anticipate the remainder of the full year earnings per share to be evenly distributed across the second, third, and fourth quarters. This could be moderately affected by when the Kinectrics acquisition closes and the resulting impact on non-operating items such as interest expense and pension income and the other net on the P&L.

To sum it up, we had a solid finish to a record year. BWXT has a strong competitive position and growing markets, supported by our unique infrastructure capabilities and a robust workforce. We are focused on execution and have a strategy in place that we believe will allow us to effectively and efficiently capitalize on market opportunities and therefore continue to drive shareholder value.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Thank you. Okay. So your first question comes from the line of Scott Deuschle with Deutsche Bank. Please go ahead.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, good evening. Robb, can you offer an update on where medical profitability was for the full year 2024? And how we should be thinking about the incremental EBITDA margins in medical from here?

**Robb A. LeMasters**

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

A

Yeah. So I'll remind you that in 2023, we sort of slightly turned positive and then built upon that in 2024. I think as far as we want to go is that we're really seeing the margins in that particular part of the commercial at or slightly above where the overall segment is. So that was accretive to margin. And I think that margin upside we'll see as ultimately the tech business continues to grow and the revenue grows. So right now, it's a really nice contributor to both EBITDA and revenue.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And just to clarify, it grew about 25% in 2024, and you're expecting the similar amount of growth in 2025, or is that...

**Robb A. LeMasters**

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

A

That's exactly right. Actually, on the transcript, we specifically said it was 23% and we saw the same rate looking at 2025.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And then, Rex, if GE Hitachi were to get some SMR orders here from US customers like Tennessee Valley Authority, just curious if – would you be able to service that manufacturing work out of your facilities in Canada? Or do you think you'd be required to build out capacity for US customers in the United States, particularly given some of this tariff risk overhang?

**Rex D. Geveden**

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

A

Yeah. I mean, sort of setting the tariff risk aside for a moment, Scott, yes, we would be able to service that out of our Cambridge plant. In fact, that's what that capacity expansion is about. It's about the ability to build all the Pickering steam generators concurrent with reactor pressure vessels and other things that we are moving through that plant. And so, we designed it so that we have an output capacity of about three reactor pressure vessels a year. So I think all things being equal, we would want to fill that plant up before we would move to expand in the US. So, we have plenty of capacity for, let's say, a four pack at Clinch River, completing the Darlington reactors and maybe some opportunities in Poland.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And then how are you thinking about that tariff risk, I guess, both on the commercial nuclear side and on the medical side?

**Rex D. Geveden**

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

A

Yeah. So I'll start this and maybe flip it over to Robb. It's obviously concerning to us, most particularly in our medical business, because we export a good amount of products into the US. Of course, that import tariff is paid by the customer, but it might put – might splash some pricing pressure back on to our medical products. The commercial power business is really kind of self-contained in Canada. Obviously, the labor is there and a lot of the components are manufactured there and sold there. So there's not as much effect there. But it is a concerning thing and we're evaluating it and keeping a close eye on it.

With that, I'd flip it over to Robb.

**Robb A. LeMasters**

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

A

Yeah. Maybe to put some – we've been analyzing this day by day, we're monitoring and there are some headlines even earlier today. So we're just assuming that this will be a headwind. And of course, Canada is likely to respond as well. The way we're looking at it, Scott, is that about 75% of our earnings comes from the government side of the business, as you know, and 25% for commercial. On the 75%, that's really a self-sustaining in-market business, right? That's how you build a defense business, is to be able to source everything domestically to the extent you can or at least know that you can get supplies from a couple of different areas.

So that puts us in a pretty good position where our supply chain and ultimately where our workforce and sales are all kind of within the US. Then looking at the 25%, I think Rex is exactly right that just dividing that into the two different parts, the power business, which again is the majority of that business' revenue and profits today, is also, I guess one could say, self-sustaining. Commercial power in Canada was always derived to be sustaining. I actually think it could be interesting to just look at the competitive dynamics where ultimately the utilities themselves want even more source in Canada. So I think that puts us in a pretty good position within the power. We've evaluated the supply chain for some of those products and, occasionally, we get stuff from overseas or from the US, but it's a minority. And frankly, we can replace it. So don't see a lot of pressure there.

Rex talked about the medical business. We are concerned about the medical business because mostly, that's a manufacture in Canada and sell into the US and sometimes into Europe. And the way we're thinking about it is that if this goes through, we need to contact our customers and really make a strong case that the supply chain really only has a couple of players. We're standing up capacity. We need to work with our customers. And this is not going to be a some short-term thing. So we're going to try to evaluate whether or not there's ways we or our customers can work together.

There's also a factor in the medical business, which is this is a pretty high margin business for some of our customers. So, the COGS and – are relatively small, high gross margin. So that's where you'd want to if you were a supplier into an industry, you'd want to sort of have that kind of dynamic where even if we have to pass along our price on to their COGS, it's not going to hurt their profitability a whole lot. So, we'll work with our customers. We're looking to be long-term players with them. We hope they're viewing it the same way. And if we have to pass along price, we will.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*



Thank you.

**Operator:** [Operator Instructions] Your next question comes from the line of Thomas Meric with Janney Montgomery Scott. Please go ahead.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*



Good afternoon. Thanks for the time. Rex, you mentioned expanding into adjacencies being a part of the battle plan. I'm curious how you think about the possibility of expansion into hexafluoride conversion, whether that's organically or through acquisitions?

**Rex D. Geveden**

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



So, we have the capability internal to BWXT to do conversion and deconversion. And so – but it would require some additional plant capacity and a new process line. So, it's not the sort of thing I think we would think about acquiring. It's something we would sort of stand up organically if we were to do that.

**Thomas Meric**

*Analyst, Janney Montgomery Scott, Inc.*



And then second one for me is really on kind of win rate after the Kinectrics acquisition, and just how to think about the commercial win rate improvement that the Kinectrics acquisition you could bring as – and specifically I'm also thinking about the BANR project and potentially options for microreactors at industrial facilities or data centers, things like that, just kind of the overall package that you now have with the acquisition. And that's it from me. Thanks.

**Rex D. Geveden**

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



Sure. I would say – maybe I'd put it in a little – maybe I would respond in a little different way than you framed the question. What the Kinectrics acquisition brings to us is a spectrum of capabilities that round out what BWXT does. We do engineering and component manufacturing and [indiscernible] (00:30:13) fuel – waste containers and fuel manufacturing and Kinectrics has a number of interesting and different complementary capabilities like licensing on the front-end, safety base analysis. And they've got some tail-end things, as we said in the script, such as supporting – particularly testing support for decommissioning, and some things we don't even have like distribution and transmission.

And so what it really does, it gives us a pretty interesting vertical stack of capabilities. So, Kinectrics has on its own a very high win rate. We, BWXT, our Canadian commercial power business has a very high win rate on its own. And I don't think that would change. I think what would change is that the combination of those two gives you this vertically integrated offering that you could take your customers and maybe take on something completely bigger and completely different than you had anticipated before. And so, I think it's a powerful combination and maybe enables us to climb the value chain in ways that I think are going to be powerful in the long run.

**Chase Jacobson**

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

A

Operator?

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

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Great. Good afternoon, and thanks for taking our questions.

**Rex D. Geveden**

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

A

Hey, Bob.

**Robb A. LeMasters**

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

A

Hey, Bob.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Hi. I just wanted to start with a quick one first, and I have a slightly longer one for my follow-up. But in terms of moly, you mentioned another contract win or potential for contracting for Tc-99 in the 2026 contract season. Can you just give us kind of the latest update on the process with the FDA and timeline? And I guess if the 2026 contract season is towards the very end of this year, you have still plenty of time ahead of you. But how is that process playing out?

**Rex D. Geveden**

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

A

Yeah, Bob. So, yes, we signed a second supply agreement from one of the major radiopharmaceutical chains in the US. So, good news for us. As I said, it demonstrates appetite for our product and I think for our brand. In terms of the Tc-99 development, I think I mentioned on the last call that we've been working through a few dozen items. Taking and tying those off, we are really sort of down to the short strokes on this one. We've been spending quite some time perfecting our formulary because you need to – we get to make trade-offs between elution efficiency and moly breakthrough, for example. So, we're perfecting that product, making sure we have it exactly right before we submit our final data package. And I feel quite good about where we are. I do anticipate approval this year so that we can be in production contracts in 2026.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay, great. Thank you. And then, obviously, you started off the call, you had a tremendous year last year, you have consistent, steady, long term growth outlook and several opportunities over the medium term. So, the diversity of the growth is great. I was hoping you could help focus us a little bit on the biggest contributors in dollars. You don't have to tell us the dollars, but just rank them. Biggest contributors in dollars over the next five years. And I'll throw out a few, and then just tell me what I'm missing or rank them for us. But the recovery in the aircraft cadence, the increases in the Columbia rates, the Canadian refurbishment growth, moly sales, you

mentioned the new builds in Canada, microreactors, SMRs, give us a sense of the rank order of – I'm talking five years out, the dollar contributors, and how you think about the variability around those medium term drivers.

**Robb A. LeMasters**

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

A

Yeah, it's Rob. I can kind of think about how we build up our growth. We've gone through a – we're going through our strategy, planning cycle, where we look out over 10 years. We, of course, look out over one and then three years in our kind of near-term planning cycle. But as we look out over the longer-term, maybe I'll start with kind of the near-term, medium-term and then long-term. What I really see is building the biggest growth drivers in the near-term. All of our base businesses are just going kind of grow nicely. But what comes on top in the near-term, I think, is an increased expansion of SMRs, as well as nuclear medicine. I think both those two are really primed over call it the next one to three years to really kind of be the incremental to how people are thinking about just the pretty steady organic growth we have in our core.

Over the medium term, I see more around AUKUS specifically. I think that'll pick up quite nicely. I also see a play for microreactors either us helping others or us getting into that business. So that's sort of a medium term driver. In that bucket, might be also a play around fuel for microreactors, TRISO specifically.

And then as I think about sort of the longer term, I think some of the biggest franchises are – still to be had are around enrichment. I think we're just getting going there and it takes a little bit of time, but I think that'll be a significant incremental growth driver around, as you said, to that five-year time horizon. And the last one I put on the list is greenfield commercial nuclear, sort of large scale reactors.

So again, start off kind of slow with the things that we're on, the medium term being more about microreactors, and AUKUS in the longer term, just takes a long time to get the engine really going. But once we get it going on enrichment and commercial nuclear large scale reactors, I'm pretty excited. I guess you could also say that therapeutics over that time is kind of feathered in across all of those.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Super. That's great. Thank you so much.

**Robb A. LeMasters**

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

A

Sure.

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

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Hey, good evening, guys.

**Rex D. Geveden**

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

A

Hey, Pete.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Maybe just following on Robb's comments on microreactors, can you guys talk more about – I feel like we haven't heard in a while on BANR. Maybe you could talk about if there's any dependency on BANR from Pele, if that builds on it. And you've got – I think there's LOI with Tata as well. And it seems like we've had a proliferation of microreactor kind of planning globally, right? So I wonder if you can give us kind of a real kind of overview of where you're out there with BANR. Thanks.

**Rex D. Geveden**

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

A

Sure. I'll do that. I'll take that one, Pete. So BANR is part of the Advanced Reactor Development Program, contract award from the Department of Energy that we won probably four years ago now. And it's one of those 80-20 cost shares where we're investing at the 20% level and the government takes the other 80%. So it's quite beneficial to us from that perspective. BANR you can think of as a commercial derivative of Pele, but it's in a little different size class. Pele, we can say, is in that one to five megawatt class of power output, electrical, and you can think of banner is more like in the 15 to 20 megawatt electrical power output. Now, there are some real differences here.

Pele's is designed to fit into a standard Conex box and can be air shipped or rail shipped. You wouldn't have that same kind of constraint with a thing like BANR. And so therefore, BANRs, in some ways, simpler and probably certainly going to be more cost effective from the standpoint of the scale, economics of scale, but also the packaging, and would be suitable for things like those applications we've talked about in Wyoming that would support trona mining with Tata, and also it would fit into that class of reactor for which the DIU, the Defense Innovation Unit, is soliciting for – to power US military bases.

So that's the relationship between the two. There's a ton of learning between Pele and BANR, and it's essentially the same team. And so we have a semi-premium membrane where employees move back and forth as necessary. And we take the lessons learned and apply them to BANR. So it's good dynamic there. And we're hopeful of some positive commercial outcomes.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

And I guess Pele, the first prototype, is that expected to be up and running next year? Is that the timeline? I guess maybe BANR would be on a somewhat similar timeline. Is that what you're thinking?

**Rex D. Geveden**

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

A

Yeah. I'd say, I don't – our customers aren't publishing schedules on that actively right now, but Pele and BANR both undergone some scope increases, particularly around testing. And so they'll continue over the next couple of years. And we're not – we're certainly not approaching a cliff on either of those.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay.

**Robb A. LeMasters**

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

A

Maybe just to provide a little perspective on why microreactors might come next, at least in my opinion. When you look at the commercial nuclear market, you really see a trend where we've gotten going on the refurb side that has given way to greenfield activity, right? That's the next thing that's happening there. You're seeing a lot of activity on the SMR side and maybe the next generation, in my opinion, could be microreactors if you just think about getting further out on experimental products, if you will.

And then the last sort of analogy I would give you is that the Gen 3 reactors that are popping up in the SMR world are also starting to lay the groundwork for advanced reactors, which are based on HALEU or our different fuels. So when you really think about refurbs giving way to greenfield, SMRs, the micros, you can start seeing that you're starting to get an ecosystem of people doing a lot of things that are paying the bills here now with solutions that work, but also looking out over the next couple of years. And I see microreactors as kind of the next thing.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Great. Thanks for the overview, guys.

**Rex D. Geveden**

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

A

Thanks, Pete.

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

**Michael F. Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Hey, good evening, guys. Thanks for taking the question. Good results. Hey, Robb, just on the EBITDA bridge into next year, what's the assumption from Kinectrics? Should we assume about \$20 million? And I guess, does that imply that the organic core margins are down 60 basis points or so? I know the corporate was going to be down, but is that the right math we should be thinking about?

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

A

Let me take those in two different buckets. So as you recall, we acquired Kinectrics, which we haven't closed yet, still expecting a mid-year closing. That's going nicely. We talked about it having a little bit under \$300 million of revenue, that's US dollar, and about a little under \$40 million of EBITDA. We said those would grow nicely in 2025. So slightly over \$300 million and slightly over \$40 million. As we always have described in all of our guidance, we take different scenarios, whether we close the deal in two months from now, three months from now or five months from now. But I think the way you set it up there is actually a reasonable way to think about sort of half a year of call it \$40 million of EBITDA, depending on how that flows through.

Of course, don't forget that when that timing comes in, that's going to come with it interest, as well as some pension expense which rolls down into other income. So we've always said that's only going to be slightly accretive in the first year. So if you think about it, you modulate the EBITDA and you modulate the interest in other income to really be relatively neutral. Said differently, no matter when it kind closes, we've sort of included all those scenarios in our – on how we thought about EPS given the neutrality ultimately on EPS.

And then as the margin goes, I didn't exactly follow you on the 60 basis points because here's how I'm thinking about it, is that we end the year in 2024 at 14.1%. We guided 14% to 15%. You have the mix-up impact of medical. You didn't have some headwind from the fact that your commercial nuclear business, the existing business grows less than 25%, because that's medical. So that would always have a pull down because that has margins essentially in line with the overall CO segment.

And then you've got a huge amount of Kinectrics, or huge, meaning, a large new dose of similarly commercial power EBITDA margin. So you're still growing margin even in the face of increasing your commercial nuclear power mix tremendously with both Kinectrics, as well as just the implied growth that we have in our core business. So I'm pretty proud of that mix up for the overall CO margin.

And I'll say lastly, of course, at the company level, we can't outgrow when you're essentially guiding to nearly 50% growth in commercial, which frankly will always probably have a lower margin overall than government, you're always going to have a mix down at the company level if you have years like this where you're taking on a huge amount of commercial. So that's just a function of that. We don't even look – we look at GO margins. We look at CO margin. We'd encourage you to do the same.

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Okay, fair enough. And then just one last one. Rex, what's the latest on DRACO? It looks like that problem or that program has kind of had some maybe challenges on testing. Are you still getting revenue there? Any expected headwinds or how should we think about that one?

---

**Rex D. Geveden**

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

A

Yeah. It's actually the contrary, Michael. There's a desire to do some more comprehensive ground testing before that mission launches. And most of that scope comes into our contract because it's around testing the nuclear engine. So it's – there's certainly going to be some schedule implications for that. But that's new scope that comes into our program. And so it's business for us.

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**Michael F. Ciarmoli**

*Analyst, Truist Securities, Inc.*

Q

Okay, okay. So, no issues there. Okay, perfect. Thanks, guys.

---

**Robb A. LeMasters**

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

A

[indiscernible] (00:45:01).

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

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**Joshua Korn**

*Analyst, Barclays Capital, Inc.*

Q

Hi, good afternoon. This is Josh Korn on for David. Just wanted to ask about the new Navy contract. Any color you could provide and how that might flow through to margins over the next couple of years? And then in the same vein, if you've gotten helped by any of the shipbuilding funding from the CR. Thanks.

**Rex D. Geveden**

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

A

Yeah. I'll answer the latter one and then maybe flip it back to Robb on any impact of the pricing agreement on margins. We don't have any – we're not getting any direct funding from any of the shipbuilding, submarine industrial base funding that's coming through this time, or we haven't seen that. We did – we were the beneficiaries of some of that finding a few years ago to help in workforce development. And it was quite positive for us. But we have – we don't have any particulars on the latter one.

**Robb A. LeMasters**

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

A

Yeah. And maybe I'll just address the recent price agreement. I don't think you're going to see any kink up, if you will, from the signing of that. As you know, we sign agreements every two to three years. And the agreement that we signed pre-COVID, frankly, we've been working through the economic realities of workforce and inflation and so forth. And so we've been chewing our way through that. So we're pleased that we got a new contract, but it will take a few years to even dive into that one, if you will. We always talk about layers of the cake.

So six years ago, we signed one. Four years ago, we signed one. Two years ago, we signed one. From all those layers of the cake are really what we're eating out of now. Yes, it's true that we'll start eating out of a layer of the cake that I think better probably reflects some of the realities of the economic environment that we've been dealing with the past couple of years, but also raises the bar on us, right? We're actively working with our customer to reflect all the efficiency and utilization goodness that we've been working on in the past couple of years. And so, we continue to try to set the bar higher on ourselves and work with our customer. We're in a fixed price incentive fee contract there. And during these times, I think we look quite favorable where we're working with our customer to share in that profit and really be judged by a very scrupulous customer that's looking to have us always improve our margin. So, no kink up. I think that we're really pleased with the contract that we reached, and we believe our customers, too.

**Joshua Korn**

*Analyst, Barclays Capital, Inc.*

Q

Okay, thanks. And then if I could just follow up, if you could quantify the cash tax benefit from the tax change you mentioned during the prepared remarks. Thanks.

**Robb A. LeMasters**

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

A

Yes. So, two impacts. First, going forward, if you will, the 100 basis points applied to our profit before taxes is really the way to think about what happens through our book and taxes. Said differently, 100 basis points, right, against our PBT would be about \$6 million over the next couple of years. And so, that's really going to help both our ETR – 100 to 150 basis points is really what we see over time slowly building to that level over a couple of years from the benefit. You take a reserve in the early years and then you work that down. So, we see 100 basis points plus and that would be a positive to our P&L, income going forward to be at that 22% and the cash. So, really on a going forward basis, we'd have that.

As we look back, we talked about that we've been reviewing what we did in the 2020 through 2023 timeframe. And order of magnitude, we were getting R&D tax credits of a minimal amount. We'll review that with the IRS and ultimately try to release, if you will, the past couple of years of that \$5 million or \$6 million. So, ultimately, to release all that money, we're going to have to work through that and that'll be a couple of years in the making. But

we'll work through the past and then, ultimately, we get a permanent benefit for ETR and tax savings going forward.

**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Great. Thanks for all the help.

**Operator:** Your last question comes from the line of Andre Madrid with BTIG. Please go ahead.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

Hey, everyone. Thanks for taking the question. Wanted to focus specifically on the regulatory environment. With all the news recently with the NNSA firings and rehiring and I know you guys put out a release not long after that, but just trying to talk broadly, is those really something that we're going to have to need to worry about moving forward? I mean, I thought with regard to BWX, things would be pretty secure just given the high priority of the work that you guys do.

**Rex D. Geveden**

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

A

Yeah. I'll comment to that. I would say, certainly, we have our eye on it and it's cause for some concern. But I think we're kind of built for this. We're not a staff augmentation company or anything like that. We're not writing white papers over here. I think you could argue that everything we do is high value-add for the government. So, we're making nuclear fuel and making reactor pressure vessels and doing environmental restoration of Cold War sites. I think it's meaningful work. And I would add that in the case of naval reactors, in this sole-source position, we have an open book contract with them. And so, they're examining and scrutinizing our costs every day. So, it's a DOGE-like environment to begin with. So we are – we obviously have our eyes on it, but I think we're in as good a position as you could be under the circumstances.

**Robb A. LeMasters**

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

A

Yeah. Maybe I'll just offer – I mean, I think you touched on something that concerns us here, which is there is a lot of change going on in D.C. And we're concerned about an air pocket just in general, right? As everybody gets back to work and understand what their priorities are, we think we're going to fare, as Rex said, quite well versus the competition. But it's that sort of not knowing that causes different pieces of business that we're going after to potentially get delayed. But we're not worried about that over the long term. As you said, we're sort of built for this. We think all of our programs and all the recent media of where they're looking to make adjustments would most likely not affect us.

To Rex's point, just to put numbers around it, it is in our 10-K that I think we filed earlier today. We are 80% fixed price incentive fee and/or [ph] think firm (00:51:57) fixed price already, right, within our government business. We break it out in the 10-K. So, you'll see that for 2024. So, as Rex talked about, 80% of our business is highly scrutinized by a very informed customer. We're a sole supplier and in many circumstances, we're actually showing that cost to our customer and working with them to try to find ways to save ourselves money and give that back to the government. So, again, we're really nicely aligned with all the themes that we've been reading about.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

No, that's very helpful. And thank you both for breaking it out. And I guess on a similar note, thinking about the prospect of a full year CR, what could the potential impact be for GovOps specifically? I mean, does the long lead nature of the work and its priority within the DOD kind of help offset any potential impact there? Kind of in a similar vein. So the question I just asked, but put it different way.

**Rex D. Geveden**

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

A

The thing that you worry about in a yearlong CR is whether or not you have programs of record. The programs of record to get funded at some percentage of the prior fiscal year is the typical formula in all of our major programs, our programs of record. So that would include obviously naval reactors, Virginia, Ford, Columbia, Pele, DRACO. So, from that perspective, it's not too worrisome. You do worry about new programs and new starts. That said, since the advent of this administration, the changeover in the White House and the new fiscal year, we have received authority to proceed on our West Valley Project, authority to proceed on our Hanford Tanks Project. So there's a bit of a business as usual theme going on in the business. And so we're comforted by that and hopeful that it won't be disruptive to us overly.

**Andre Madrid**

*Analyst, BTIG LLC*

Q

Excellent. Rex, Robb, thanks so much for your comments. I'll leave it there.

**Robb A. LeMasters**

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

A

Yeah, thanks for your questions.

**Rex D. Geveden**

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

A

Thank you.

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

**Peter J. Arment**

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

Q

Good afternoon, Rex, Robb, Chase. Hey, I'll be brief. I know it was a long call and a lot of question has been asked. But just Robb, maybe you could just remind us, or Rex, on – I'm looking at all the really good organic growth on the commercial operations, but – and we know you're just beginning to really ramp up with Pickering. How does the overlap go with Bruce and kind of the refurbishment work there? Do have an overlap for a few years, or how do we think about that?

**Robb A. LeMasters**

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

A

Yeah. So you're exactly – again, a little history story here is that we had Darlington really announced – first, we talked about in the call that that will be rolling off here or the lion's share of that work over the next couple of years. That's been very positive for us. We then got into the thick of the Bruce and then now – so that'll sort of –

we're in the thick of that one, and then, ultimately, we'll have the Pickering reactor refurb. That one is actually juicy for – quite juicy for us on the Pickering side. We now have 48 steam generators moving through our plants. It's a product that we know a lot about. You can really get stable conditions there. You can feel good about that work.

And so I don't see that as – I mean, I sort of view it as one slightly rolling off and then getting into two different refurbs that are just as juicy, if not juicier for our book of business, layer on top of that what's going on with the first SMR, and I think there's going to be a decision here over the next couple of quarters, if not sooner, about moving forward in Canada on that as – that would be work again that wouldn't be first of a kind. That would be second, third and fourth. So I'm feeling pretty good about the book of business that we're looking at. So I'm not worried about a roll off of the refurbs.

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**Rex D. Geveden**

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

A

Yeah. And I might add to that Peter – I might add, Peter, that the Darlington opportunity was smaller for us than the Bruce opportunity because they didn't replace steam generators over there. And we had a feeder contract and we had some other very interesting work. But Bruce has – the Bruce refurbishment involved replacing steam generators for those reactors. So we had feeders, steam generators, heat exchangers, primary coolant pump motors and the Pickering. So looks more like Bruce than it does like – than like Darlington. As Robb said, it's a little meatier for us, a little richer opportunity set.

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

So that could – could that accelerate a little bit? I mean, not in terms of the overall segment, I mean, just in general, that mix of business just given the size of the Pickering operation?

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**Robb A. LeMasters**

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

A

Yes. I think as we look out toward – I mean, it's a good question because even in our guidance, right, and Peter, for 2025 is an acceleration in the core non-Kinectrics. I think we – you could parse through if you took out the medical business this year and kind of looked at the underlying nuclear power growth in 2024, and then you look at 2025, you're seeing a slight acceleration into the double-digits on the power side. I think that'll be – we're not guiding 2026 and 2027 at this point. But I think with all those drivers of SMRs and Pickering and yes, Darlington roll off, I think we have a really good shot at continuing to grow, as we said at Investor Day, mid to high single-digits organically.

Kinectrics also, Rex talked about, that there should be some opportunities to help our customers and, hopefully, they select us not only for the work that they plan to give us, but maybe those handoff points will be easier for us to help our customers with. So I wouldn't be surprised if that helps ultimately our sales. So I look forward to seeing the positive impact of that. And I think the premise of your question does seem possible.

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Appreciate all the color. Nice results, guys. Thanks

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Thanks, Pete.

A

**Rex D. Geveden**

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

Thanks, Pete.

**Operator:** Sorry for that. Thank you, everyone. That concludes our Q&A session for today. I will now turn the call over back to Chase Jacobson. Please go ahead.

**Chase Jacobson**

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

Yeah. Thanks, everybody, for joining us today. We look forward to seeing many of you and speaking with you on investor events or on the phone. If you have any questions, you can reach us at investors at BWXT.com.

**Operator:** Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect. Have a nice day, everyone.

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