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BWXT - Q4 2018 BWX Technologies Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 26, 2019 / 1:30PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to BWX Technologies, Inc. Fourth Quarter Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the call over to our host, Mr. Alan Nethery, BWXT's Vice President and Chief Investor Relations Officer. Please go ahead.

M. Alan Nethery - *BWX Technologies, Inc. - VP & Chief IR Officer*

Thank you, Nicole, and good morning, everyone. Welcome to BWXT's Fourth Quarter 2018 Earnings Call. Joining me today are Rex Geveden, President and CEO; and David Black, Senior Vice President and Chief Financial Officer. As always, please understand that certain matters discussed on today's call constitute forward-looking statements and involve risks and uncertainties, including those described in the Safe Harbor provision found in yesterday's earnings release and our SEC filings.

On today's call, we will also provide non-GAAP financial measures, which are reconciled to GAAP measures in our quarterly materials. Copies of these documents, along with the replay of this call, are available on the Investors section of our website.

And with that, I'll now turn the call over to Rex.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Thank you, Alan, and good morning, everyone. We had an exceptionally strong finish to 2018 with robust fourth quarter performance, driving record results for both quarter and the year. Fourth quarter revenue was up 11% with earnings at $0.74 per share, resulting in new high-water marks for the year with earnings of $2.39 per share on revenues of $1.8 billion.

2018 was another stride forward in our ambitious growth plans, and I am proud of the team's performance and response to some operational challenges that surfaced during the year.

The Nuclear Operations Group, or NOG, delivered strong margins despite reserves from missile tubes. Nuclear Fuel Services, an NOG subsidiary, was awarded a $505 million contract for downblending highly enriched uranium, the largest single contract in the history of that business. And we exited the year with accelerating growth.

The Nuclear Power Group, NPG, delivered organic revenue growth in excess of 20% along with strong margins, resulting in records on multiple fronts, including a year-end backlog of over USD 800 million.

Finally, with a high focus on execution and cost control, the Nuclear Services Group delivered more than $20 million in operating income, a significant improvement over last year's result.

Throughout the year, we made several strategic moves, including the acquisition of a medical radioisotopes business and the announcement of our intentions to commercialize moly-99 radioisotope reduction. We also took actions on pension and our balance sheet that will create some near term earnings per share headwinds. However, we have firm conviction that these decisions better position the company for the future.

The pension actions derisk the balance sheet from future liabilities and the long-term fixed debt we issued in 2018 reduces our exposure to interest rate risk.

And lastly, in 2018, we returned more than $0.25 billion of cash to shareholders through dividends and repurchases while continuing to invest appropriately for future organic growth.

BWXT enters 2019 well positioned for continued revenue and earnings growth as we progress toward the achievement of our long-term guidance. We expect 2019 earnings per share of about $2.50 on revenue growth of about 6%.

I am also pleased that we successfully negotiated terms on the next multiyear pricing agreement for the nuclear and naval propulsion program with a contract value of about $2.1 billion. Of this, approximately $1.7 billion will be primarily for manufacturing reactors for Virginia Class and Columbia Class submarines. Once definitized, we forecast consolidated BWXT backlog in excess of $4.5 billion.

This work is the centerpiece of our National Nuclear Security portfolio and reflects our position as the trusted supplier of these critical components well into the latter half of the next decade.

And addition to the $2.1 billion agreement, we've been requested to propose nuclear components for the second carrier in the Navy's 2 Ford class carrier acquisition, and we anticipate reaching terms by this summer.

And lastly, we continue to execute missile tube welding repairs. Our cost and schedule are on track, with the majority of repairs scheduled to be completed by midyear.

Let me now turn the call over to David to discuss segment results, guidance and other financial matters.

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Thanks, Rex. Nuclear Operations Group generated revenue of $350 million for the fourth quarter of 2018, up 13% year-over-year, driven by accelerated revenue through favorable estimated completion, EAC changes, that included increased future volume assumptions that benefited backlog contracts. And higher volume enabled Nuclear Fuel and downblending services.

Operating income for the quarter was a record $91.1 million as a result of lower cost and favorable EAC changes.

Full year NOG revenue topped $1.3 billion, up 3.7% year-over-year with operating income of $271 million, resulting in strong operating margins of 20.6%, despite the negative impact from missile tube reserves.

Excluding the $29.2 million of missile tube reserves, NOG margins would've been 190 basis points higher at 22.5%.

The nuclear power group produced $98.2 million of revenue in the fourth quarter of 2018, a 16% increase from the fourth quarter of 2017. And marking 6 consecutive quarters of year-over-year organic growth.

Higher fourth quarter results were driven by increases in field services, fuel handling and component design and manufacturing in the medical radioisotope acquisition. Segment operating income was up 44% to $13.6 million compared to the prior year period and was driven by an increase in volume as well as the medical radioisotope acquisition.

Full year NPG revenue was also a record at $366 million, a 28% increase compared with 2017. On an organic basis, excluding $19.5 million related to the medical radioisotope acquisition, segment revenue was up 21%.

Full year NPG operating income was $52.3 million, resulting in record operating margins of 14.3%.

And lastly, the Nuclear Service Group contributed operating income of $9.2 million in the fourth quarter, significantly higher than the prior year period as a result of improved operational performance at various DOE sites and good cost control.

NSG completed the year with $20.4 million of operating income, up 44% despite the continued push out of the Savannah River liquid waste protest resolution. The company's fourth quarter capital expenditures were up 3% to $49 million compared with the fourth quarter of 2017 with an additional $30 million of CapEx not included at year-end due to equipment delivery late in the quarter. Full year 2018 capital expenditures were $109 million, up 13% versus 2017.

At the end of 2018, the company's cash and short-term investments position net of restricted cash was $33.5 million.

Fourth quarter cash flow from operating activities generated $177.7 million, more than double the $77.1 million generated in the fourth quarter 2017.

We returned $168 million in cash to shareholders in the fourth quarter, including $152 million of share repurchases and $16 million of dividends. This resulted in a total of $279 million of cash return to shareholders in 2018.

At the end of the fourth quarter, the company had gross debt of $777 million, including $400 million in senior notes, $277 million in term loans and $100 million in borrowings under our credit facility. We also had $63.5 million in letters of credit under our credit facility, and as a result, have $336.5 million of the remaining availability.

On February 22, our board increased the quarterly dividend 6% and declared a cash dividend of $0.17 per share payable in the first quarter of 2019.

Turning now to guidance.

We have initiated our formal 2019 guidance with another year of top and bottom line growth. We expect non-GAAP EPS at about $2.50 on strong consolidated revenue growth of about 6%. Our EPS guidance contemplates tailwinds from operations driven by higher volume and reduced share count. We also are factoring in about $0.20 of EPS headwind for increased interest expense and lower noncash as pension income reported in the other segment.

In NOG, we expect revenue growth of about 6% with sustained margins in the high teens with continued upside potential from CAS pension reimbursement.

In NPG, we expect revenue to be about flat as recurring service outages cycle lower in 2019 but are offset by a full year revenue from the medical isotopes acquisition. Segment margins are expected to be about 13% for the year. And lastly, we expect NSG to contribute about $25 million in operating income as the growth cycle continues.

Other 2019 guidance items include about 1% of revenue for other segment operating expense, primarily for R&D; about $20 million in unallocated corporate expense; and about $22 million in FAS pension income reported in other.

We finished 2018 with an effective non-GAAP tax rate of 23.6% and expect 2019 to be similar in the range of 23% to 24%.

We are guiding to about $225 million in capital expenditures for 2019, including the previously referenced $30 million coming from capital received late in 2018. The remaining $195 million is split with approximately $120 million for Navy, $50 million for isotopes and the remaining balance for other segments in corporate.

Given our current outlook, we believe 2019 will be a peak for capital expenditures. In 2020, we see capital expenditures coming down below $150 million and then returning to maintenance capital levels in 2021 at about 3.5% of revenue.

As mentioned in our press release, we continue to reiterate our long-term guidance of low double-digit EPS CAGR over the 3 to 5 years following the $2.05 we delivered in 2017.

Our guidance continue to reflect robust organic growth opportunities and balance sheet capacity as well as some changes to the pension outlook over the next several years.

In late 2017 and again, in 2018, we annuitized portions of the pension. This action derisks future volatility surrounding pension liabilities, but also remove pension assets. In addition, discount rates have moved up, creating additional pressure on pension income reported in other.

Based on our guidance, we see pension income being about a $0.07 headwind in 2019. We also made $118 million in voluntary pension contributions in 2018 to take advantage of changing tax law. Our updated actuarial studies now forecast recoverable CAS pension income primarily reported in NOG to remain at similar levels compared to prior years, and we anticipate that continuing through the end of 2023. As a result of the 2018 voluntary contributions, we continue to anticipate not to have to make any material cash infusions into the pension for the next 3 years until 2022.

A summary of our financials along with a dedicated pension slide can be found in today's earnings presentation and the investor briefing on our website. And with that, I'll hand the call back over to Rex for some closing remarks.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Thank you, David. Our strategic focus for 2019 includes ramping up component production of the Columbia Class submarine while completing the pricing agreement for another Ford class carrier, continuing to industrialize our radioisotope technology and capitalizing for future organic growth opportunities. We are well on our way to receiving contracts for the multiyear pricing agreement we announced earlier this month. The transition to Columbia production marks the successful conclusion of 45 years of development, production and refueling work for the Ohio class submarine. With this effort behind us, full attention is on the new Columbia Class product line.

We also remain focused on bringing our proprietary radioisotope technology to market as medical radioisotopes become the first major product line addition to BWXT in more than 25 years.

Over the past couple of years, we have seen exciting growth in our commercial nuclear power business. That segment, ended the year, up 28%, again, topping our original estimates. This segment continues to demonstrate strength in a growing Canadian market, driven by the refurbishment of the large portion of the CANDU nuclear reactor fleet.

In 2018, refurbishment and new build work represented about 40% of our revenues, and our record backlog showcases a large portion of the component work we have been awarded for future refurbishment content.

Moving forward, we expect to see more competitive opportunities for project work and fewer bids for large component work in the Canadian refurbishment market. To that end, we intend to direct our efforts to opportunities that will yield high returns and remain core to our business.

Accordingly, we will continue to be highly selective about which future opportunities we pursue in this market. As we grow closer to the peak of the Canadian nuclear power refurbishment activity, medical radioisotopes will drive more management attention and become a larger part of the story of our commercial nuclear business.

I am pleased to report that integration of the acquisition is going very well. We see upside in the legacy business lines, and we remain laser focused on commercializing Moly-99 production.

In the past several months, we've made strides on all fronts, including the design and prototyping of the target delivery system.

As I speak, our team in Canada is modifying the OPG reactor in Darlington to accept hardware for irradiating BWXT targets in the future.

And lastly, for 2019, we plan to capitalize the organic growth we have already discussed. We believe the best use of capital this year is to invest in our core businesses, most especially, our franchise platform and nuclear enabled propulsion. And we fully expect these investments to produce exciting growth for our company and shareholders.

And with that, we will open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bob Labick of CJS.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Start with an easy one, and then I'll go into a little more in depth ones. But could you talk about -- of the 26% margin in NOG, which is obviously very high, how much could we consider as abnormal maybe relating to large EAC true-ups or whatnot? And how much is kind of normalized margin for NOG in the quarter?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

So Bob, as we mentioned in the script that some of the cost in the fourth quarter we curtailed, and also we had onetime adjustments, as you mentioned. What we will go back to is the fact that what we say for NOG for now and in the future is that our margin should be in the high teens with room for improvement for the CAS pension reimbursements. What that has done historically is taken us to the 20 21 sometimes low 22% with the pension. And that will continue.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Okay. Great. And then just moving on, you just had some new slides in your investor deck as it relates to NPG, and thank you for the kind of clarity on the ramp of the outages. Can you talk a little bit about -- there's pretty steep ramp of outages in 2020 versus 2019. Walk us through what it means for you? Do you have the capacity, personnel, et cetera? How does that kind of play out over the next 2 years?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

So sort of 2 things to talk about there, Bob. One is that, there's -- the normal outage -- field services related to outages that have to do with regularly scheduled maintenance in the CANDU fleet. And we participate in that market and do quite well in that market. As you know from our comments, we're actually swinging down in 2019 on field service outages, down about $30 million, $40 million. But that swings back -- positive in 2020. That's part of it. And then there are outages related to the refurbishment activity itself where the reactors will go down for 2, 3 years, give or take, for component replacement and so forth. So where we participate in that is we have -- we are a component supplier in that market, and so all of that activity around the replacement steam generators, for example, we are manufacturing all those replacement steam generators. We're replacing the feeder tubes at the Darlington site. We are manufacturing a lot of the refurbishment waste containers. And so -- and primary coolant loop pumps -- pump motors. So we have done very well in winning the component work. The project work related to the refurbishment outages will be -- has -- some of that has been competed and will be competed in the future. We are a small player in that, frankly. We generally don't get involved in engineering, procurement and construction projects in that market. And so we won't be a large player there. So I think you've seen our growth manifest in the appropriate way. We have won a very significant fraction of that component work, and that's ongoing in our plans.

Robert James Labick - *CJS Securities, Inc. - President & Director of Research*

Okay. Great. Last one, I'll get back in queue. Just -- can you talk a little bit about the timing of the Columbia revenues as it relates to the kind of coming into '19 and 2020? Should it be smoothed out over the 7 years or so that it takes, or is there a difference between '19, '20 and going forward? Just giving a sense, not the numbers, but just directionally, size of '19 versus '20.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. I think what we've -- the way we've characterized that in the past is, Bob, is that we -- you see a little bit of a pop in the front end, which would occur towards Q4 of this year that has to do with long-lead materials. And then it's kind of a pretty steady revenue from that -- production and revenue from that point forward until -- towards the end of the delivery. And then it turns up a little bit there. So -- and that production as -- we've characterized that as sort of a 7-ish year kind of a production. So that's how it looks.

Operator

Our next question comes from Peter Arment of Baird.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

David, I wondered if I could just circle back to the comment around the NOG margin in the fourth quarter. The EAC adjustment, it's not -- I think for the year, you ended up about $46 million in the EAC adjustments in NOG versus $35 million last year. But the step up in Q4 was pretty significant. Can you just give us a little more color around the cost containment?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Around the curtailment of cost in the fourth quarter?

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes.

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

Yes. I mean -- I -- we don't have the exact numbers to provide you for the curtailment of cost. But there are certain level in costs that we went through and looked in the business to evaluate to see if we could curtail those costs at least in the fourth quarter knowing that we had some room to make up and try to get to the year we wanted to get to. So that is part of that as well as that change in the EAC from year-over-year that allowed us to get to that quarter. But no details on that.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And then just maybe unrelated on CapEx. So thanks for the color on the peak year. But the incremental, I guess, around -- is the medical isotopes spending, is that above your expectations prior to when you had planned Nordion? I think the original expectations were that this -- you were coming with an already setup processing facility?

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

What we knew when we -- we changed our capital outlook when we bought Nordion. So we dropped the $100 million. But we knew that we still had to -- when we got the facilities, we would still have to facilitize that facility in order to be ready for production. So those are the production lines and other things that have to be put in there. So these capital numbers are -- in our mind, it just shifted in time and then laid out a little differently than what the original was.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. Peter, I'll just add. That's -- It's in line with our expectations from the beginning.

Operator

Our next question comes from David Strauss of Barclays.

Matthew Carl Akers - *Barclays Bank PLC, Research Division - Research Analyst*

This is Matt Akers on for David. I wanted to ask quickly on Virginia class. One of the shipbuilders this quarter was talking about some challenges sort of as they move through the various blocks of ship there, is that right? And I know you guys are a couple of years ahead, but is that something you guys are impacted by at all? Or are you not affected there?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Matt, we are not impacted by that. The way this -- our contract with the Navy works is that we deliver to the Navy, and the Navy provides the reactors and associated equipment as government-furnished equipment to the shipyards. So those reactors go to electric boat and go to Huntington Ingalls, and it doesn't impact our production schedule.

Matthew Carl Akers - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Got it. And I guess, Dave, you gave some color on the CapEx. That balance. Thanks for that. That's helpful. I guess, how do you think about overall free cash flow conversion of net income for the business? Kind of -- once we get out too, I think you said 2021 is when we get back to maintenance CapEx levels.

David S. Black - *BWX Technologies, Inc. - Senior VP, CFO & Treasurer*

I mean, free cash flow is going to improve, obviously, between now and then because we've got got 2 years of still stealthy capital in 2019 and 2020 as we've prepared the remarks for you here. So I think in 2021, '22, then we'll be getting back to periods of time of free cash flow that is higher and capital allocation then that will be changing and different at that point in time.

And once again, we're -- we, hopefully, we have a balanced capital allocation approach where we still have -- these organic things we're going through now, but we're also looking at acquisitions and repurchasing shares. We have $185 million of shares authorization to repurchase. At this point in time, I'd say that we're going to be in the market for dilution. We've said that every year. And after that, we'll be opportunistic. But we have the availability to do things when the free cash flow returns.

Operator

Our next question comes from Pete Skibitski of Alembic Global.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

I have a question on the margin guidance, NPG, for 2019, the 13%. I thought maybe we have some margin tailwind there just because -- I thought that Nordion was kind of a higher-margin business fundamentally, legacy NPG business. Can you talk through kind of the puts and takes there? I don't know if it's just all due to amortization that's -- headwind in '19. But maybe just give us some color on what's driving the pointers in '19?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

I'll take that one, Pete. Thanks for the question. Yes, so as we said, the revenue related to service outages are cycling down in 2019. Replacement revenue for that is largely the radioisotope acquisition. And that is a higher gross margin business and has different performance characteristics from the base Canadian business. But we do have significant amortization of intangibles in those numbers, and so subtracting those intangibles, you have the better picture, but with those included, it's -- the replacement revenue isn't as high a margin.

Peter John Skibitski - *Alembic Global Advisors - Research Analyst*

Got it. Okay. It sounds good. And then Rex, last one. Anything new in the nuclear space world that's interesting?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, there's actually a lot going on there, Pete. We talked a lot about our Navy nuclear franchise platform, and that's clearly the centerpiece of our business. But what we've been seeing over the past 2 or 3 years is a very interesting, sort of, future demand signal, let me call it, from various components of the government. So we see interest from places like DARPA, continuing interest from NASA. Department of Energy is very interested, in classes of reactors that we're kind of calling compact reactors or micro reactors, for various applications, including off-grid applications, space applications, defense and security applications. And so we're actually quite impressed with what we see there, and we see some future markets and maybe the opportunity to replicate our franchise platform in some different market such as space and Army and maybe other things. So there's a lot going on there. We haven't disclosed much about it yet. But we're building some new businesses around those requirements.

Operator

Our next question comes from Ronald Epstein of Bank of America Merrill Lynch.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

It's Kristine Liwag for Ron. From our conversations with some industry players, it seems like the Navy is worried that you've encountered issues in the missile tubes, which was viewed as a lower technological risk product, especially as we go into the Columbia Class, which is going to be a more technologically advanced product. Can you talk about how the fallout or maybe what the conversations you've had with the U.S. Navy has been after the issues of the missile tubes? And in terms of planning and of risk. How that's changed after the missile tubes issues have been encountered?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, Kristine, I see those as very disconnected issue. So it hasn't impacted our Naval reactors work in any way, whatsoever. In the particular case of missile tubes, we are working through a very, very challenging self-imposed inspection requirement using ultrasonic inspection techniques to very, very high standard. It's very, very difficult to make volumetric welds to that standard. And the problem is not unique to BWXT. It's certainly has manifested itself in other parts of the supply chain. So -- and we're recovering from that very nicely. So I don't see that as a -- having any relationship to our Navy work.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

Great. And on the NPG segment, you're guiding to flat revenue outlook for the full year. It looks like you've got 3 lower outages in '19 for the recurring market for the Canadian commercial nuclear power. And you've also got about 3 new starts in terms of a nonrecurring refurbishing market. Is it fair to say that those are the two moving pieces that get you to flat growth for the segment for '19?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

I think that's a fair way to put it. And most of the flatness has to do with the down cycle in our traditional services market. There just aren't as many outages in 2019. And as we've said, those swing back positive in 2020. So that's really what's driving it.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

And is there any risk or risk of upside that you would see more than 7 outages? Or is this number pretty much firm for the year?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. I don't think that's going to change.

Operator

Our next question comes from Michael Ciarmoli of SunTrust.

Unidentified Analyst

This is George [Picot] on for Mike Ciarmoli. I just wanted to get a status on what the current FDA approval is for some of the medical radioisotopes. Do you have any update there? And what stage you are in equipment design?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. So nothing new there. I think we reported in the last quarter that we had another engagement with the FDA. And it was positive from our perspective. So we're on the normal tempo with FDA review. And we don't see any changes in that. From the standpoint of equipment design, we're moving along with the sort of 3 major areas for equipment design and one is the target delivery system that goes into the reactor. We are progressing along that path. And then there are two parts that are related to our production facilities in Kanata, up near Ottawa, Ontario. And in Kanata, we are putting in what's called the radio chemical processing line, where we process the chemicals through hot cells and then the third piece is -- the second piece in Kanata, and the third piece overall, is the radio pharm line where we load the generators with our material. And all of that is progressing. And we're satisfied with the progress.

Unidentified Analyst

Excellent. Can you -- I mean, you made a small adjustment to the management reserve for the missile tube rework? It seems like a large percentage of that may be completed in 2019. Can you give any commentary on the percent completion of the work during the calendar year?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. So there was no adjustment to the missile tube reserves. I think what you might be seeing there is the difference between the $29-something million and the $32.5 million that has to do with.

That -- the reserve number didn't change. The balance -- the difference between the $29 million and the $32.5 million has to do with the fact that we took profit to 0 in the current contracts -- for the production contracts. And in terms of progress, as we said, we're progressing more or less according to our schedule and cost plans. And we're sort of only 15% into these missile tube repairs. But I'm really pleased with the progress that we're making.

Unidentified Analyst

Okay. And I think just wrapping up. You said something very insightful about the new businesses that are -- you're working on. There seems to be a significant push to minimize the fuel supply chain with forward operating locations for the Army. Are these new business related to that kind of push toward reducing that fuel supply chain? And I'm talking about diesel fuel.

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes. So that's part of it. So that is part of, George, the -- it's a well-known number, but about 50% of in-theater casualties have to do with the logistics and a lot of diesel drivers are getting killed, to put in a blunter terms. And so yes, I think the Army is interested in that kind of application. I don't believe that will be the first application of remote nuclear power. I think you might see domestic bases go off the grid before you saw that. But there are lots of applications right. There are off-grid applications. There are remote power applications for other things like operating radars. There are opportunities to power directed energy weapons for some of the advanced threats that we see whether those are in space or whether those terrestrially based. And you can imagine nuclear applications for boosting satellites or satellite defense. There are so many, so many, very challenging national security problems for which compact nuclear reactors are the only feasible solution. And that's the tip of demand that we're starting to see. And I think it's pretty exciting for the future of our business.

Unidentified Analyst

Yes. Very exciting. You may want to toss disaster recovery into that bucket too.

Operator

Our next question comes from Josh Sullivan of Seaport Global.

Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Can you just update us on the thought process along the missile tube opportunity? Is this a business, you believe, you want to be in long term? And then I guess, how are the next round of missile tube contract negotiations going in at this point?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, thank you, Josh. Well, nothing has been awarded in the continuous production phase, although, those discussions are ongoing. And I think whether we would participate in the future certainly depends upon what kind of contract terms we could get. The business has been especially kind to us so far. And so we'll just have to evaluate and see what we want to do with it going forward.

Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Okay, fair enough. And then just, can you give us -- your thoughts on the overall defense budget over the next 3 to 5 years? How shipbuilding, how the Columbia funding positions just in the various budgets and scenarios that might or come over here over the next 3 years or so?

Rex D. Geveden - *BWX Technologies, Inc. - President, CEO & Director*

Yes, sure, Josh. I mean, who knows what will happen, of course. But from our perspective, if you look at the product lines within nuclear operations, we have, obviously, the Ford class aircraft carrier, the Virginia fast attack submarines, and then we've got strategic boat with the Columbia submarine. And those are all programs of record. Those are all authorized and appropriated programs. And so I think -- and by the way, stated to be very high-priority programs for the Navy and for the Department of Defense. And so I feel pretty safe with our portfolio. There are questions about whether the nation could afford to get to a 350-ship Navy or not. But if there's any budget curtailment, I do believe these programs will be generally well protected. So I'm quite bullish on keeping our portfolio at the current acquisition tempo.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Alan Nethery for any closing remarks.

M. Alan Nethery - *BWX Technologies, Inc. - VP & Chief IR Officer*

Thank you, Nicole, and thank you for joining us this morning. That concludes our conference call. If you have further questions, please call me at (980) 365-4300. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
