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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to BWX Technology, Inc.'s (sic) [BWX Technologies, Inc.'s] Fourth Quarter and Full Year 2017 Earnings Conference Call. (Operator Instructions) 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, Brandon, and good morning, everyone. We appreciate your joining us to discuss our 2017 fourth quarter and full year results, which we reported yesterday afternoon. A copy of our press release is available on the Investors section of our website at bwxt.com.

Joining me this morning are John Fees, BWXT's Executive Chairman; Rex Geveden, President and Chief Executive Officer; 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 under federal securities laws. Forward-looking statements involve risks and uncertainties, including those described in the safe harbor provision at the end of yesterday's press release and the Risk Factors section of our most recent 10-K and 10-Q filings. These risks and uncertainties may cause actual company results to differ materially, and we undertake no obligation to update these forward-looking statements, except where required by law.

On today's call, we will also provide non-GAAP financial measures, such as adjusted earnings per share, that are reconciled in yesterday's earnings release and our investor briefing presentation, both of which are available on the Investors section of our website. BWXT believes the non-GAAP measures provide greater insight and transparency into the company's operational performance and provides these measures to investors to help facilitate comparisons of operating results with prior periods and to assist them in understanding BWXT's ongoing operations.

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

John A. Fees - *BWX Technologies, Inc. - Executive Chairman*

Thank you, Alan, and thank you all for joining the call today. Yesterday, we posted solid fourth quarter results, a capstone to an outstanding 2017, in which we delivered on our commitments to continue to create value for our customers and our shareholders. We met our increased guidance and finished the year with strong top line growth and best-in-class margins. We grew EPS an impressive 16%, and took actions to position the company for continued sustained long-term growth.

In the fourth quarter, we delivered $0.47 of EPS on 7% revenue growth while increasing R&D and CapEx to promote future growth. Our cost discipline was integral to our margins, which delivered our quality earnings. We remain very positive about our future outlook, which we will discuss in more detail later in this call.

For the year, we delivered $2.05 earnings per share, $0.01 above the midpoint of our latest guidance and well above our initial guidance of $1.85 to $1.97 for 2017. Our revenue was a record $1.69 billion, an increase of 9% over 2016. Operating income reached $315 million, a 13% increase over last year, while margins expanded 60 basis points to 18.6% on a consolidated basis. Backlog remains robust at about $4 billion at the end of 2017.

So 2017 was a remarkable year by any measure and is crowned by key wins in the fourth quarter. Naval Nuclear Propulsion Program exercised contract options and new awards of nearly $0.5 billion. In Canada, we received a CAD 168 million extension with Ontario Power Generation for fuel manufacturing, and in October, the BWXT-led team was awarded a $4.7 billion contract for Savannah River's liquid lakes -- waste services, which is still pending a protest. We also received several awards worth about $1.4 billion for environmental management work at the Los Alamos National Laboratory.

Before Rex provides more details on our operations and 2018 outlook, let me turn the call over to David, who will discuss the segment's fourth quarter and full year results and other financial matters, including tax and pension.

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

Thanks, John, and good morning, everyone. We mentioned on the last call that we were considering tax planning initiatives for the pending legislation. We had a $55 million impact, which was primarily related to a onetime noncash write-down of deferred tax assets and based on actions we took subsequent to the signing of the Tax Cuts and Jobs Act of 2017. This resulted in a GAAP effective tax rate of 127.6% for the fourth quarter and 49.8% for the full year.

Our non-GAAP effective tax rate was 31.9% for the fourth quarter and 31.6% for the year. The new law, coupled with our tax planning actions, will have a positive impact to the business going forward, driving increased cash and freeing up capital to be used for the growth initiatives and to return back to shareholders. For 2018, these positive impacts totaled about $0.30 per share, and we are guiding to a non-GAAP effective tax rate in a range of 22% to 25%.

For segment results, the Nuclear Operations Group revenue was $309 million for the fourth quarter of 2017, a 7 point -- a 7% decrease from the fourth quarter of 2016. For the year, the segment's revenue was up slightly to $1.27 billion, while operating income was up 8% to $290 million. Operating income for the quarter was $70 million, down 9% from the fourth quarter of 2016.

NOG delivered operating margins inclusive of pension reimbursements of 22.8% for the year, a 160 basis point increase from 2016. This segment's backlog at the end of December was over $3.3 billion.

Compared to fourth quarter 2016's revenue, Nuclear Power Group's revenue of $41.3 million more than doubled to $85 million, driven primarily by the BWXT Nuclear Energy Canada acquisition, marking another record for the segment. Fourth quarter operating income was up 149% to $10.3 million compared to prior year. For the year, the segment increased its revenue by more than $124 million or 77% to $286 million.

In addition to the year-over-year increase from the acquisition, organic revenue was up about 20%. Full year operating margin was robust at 14%, which includes the amortization of acquisition intangibles. The segment booked $194 million, an exceptional quarter for orders, and ended the year with a backlog of $637 million, 35% higher than a year ago.

In the fourth quarter, the Nuclear Services Group contributed operating income of $5.8 million and delivered over $23 million in 2017, which includes $7.9 million of fee income associated with the settlement of a contract dispute related to task order work that was completed in 2013. And as John mentioned earlier, the more than $6 billion of recent contracts awarded to BWXT joint ventures continue to position the segment for the initial steps to growth in 2018.

The company ramped up capital expenditures to $48 million in the fourth quarter, more than double the fourth quarter of 2016. Full year 2017 capital expenditures were $97 million, roughly double that of 2016, which reflects the increased investment for anticipated organic growth. We expect to increase capital expenditures in 2018 to approximately $250 million for the year. Over half of the capital for growth initiatives will be used to fund Navy build, and the remainder will fund other organic opportunities, including medical radioisotopes. We continue to see these investments contributing meaningfully to the growth in late 2019.

Depreciation and amortization totaled $14.4 million for the fourth quarter, up about $1 million over the fourth quarter of 2016, primarily due to the BWXT NEC acquisition. As of December 31, 2017, the company's cash and short-term investments position net of restricted cash was $206.3 million. Fourth quarter cash flow from operating activities generated $77.5 million compared to $147.4 million in the fourth quarter of 2016.

As of December 31, 2017, we had $513.1 million of borrowing and term loans. No borrowings under the revolving line of credit and letters of credit totaling $75.9 million. As a result, the company had $324.1 million of remaining availability under our credit facility.

We continue to review our balanced capital allocation as we grow. And on February 22, 2018, our board declared a cash dividend of $0.16 per common share payable in the first quarter of 2018. This represents a 45% increase over the prior quarterly cash dividend. We also evaluated tax strategies and have decided to annuitize part of the pension.

In the fourth quarter, we transferred $114 million of liabilities and assets and used $30 million of cash to prefund the remaining pensions. Our actions have moved approximately 40% of our domestic retiree population to a third party and derisks our exposure moving forward. And we will continue to look for opportunities to use capital to derisk the pension going forward.

Our pension guidance includes the adoption of FASB recommendations issued in March of 2017. Our 2018 guidance includes about $30 million to $35 million of other income, which is primarily pension and other post-employment benefit plans reclassified from the segment, with a vast majority coming from NOG. We have also included pro forma figures in a pension slide in our investor briefing for NOG margins with post-pension reclassification for 2015, '16 and '17.

And with that, I'll hand the call over to Rex for a discussion on segment operations and the outlook for 2018. Rex?

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

Thank you, David, and good morning. John and David have already summarized our accomplishments for 2017, but let me provide a little more color on the fourth quarter and a highly eventful year before turning to our strategy and 2018 guidance.

As discussed, we reported robust revenue and operating margins in the fourth quarter driven by strong results across all 3 segments. Of particular importance is the growth in the Nuclear Power segment backlog, reflecting our growing strength in that market. Backlog in that segment is at near record levels, and total BWXT backlog stood at about $4 billion at year's end, which supports continued strong top line and earnings growth in the coming years.

In Nuclear Operations, we received fourth quarter awards of nearly $0.5 billion for the manufacture of naval nuclear reactor components. We also anticipate additional contracts and options during the first quarter of 2018.

We are making considerable progress on missile tubes having already delivered the fourth missile tube and expecting to complete a fifth this week. To date, we believe, we are the only contractor to deliver missile tubes and our performance gives us confidence in our ability to win and deliver on future awards.

And lastly, the Nuclear Services Group is experiencing a resurgence as expressed by additional contract awards in the fourth quarter that John described earlier. Nuclear Services has been awarded more than $8 billion in contract value over the past year. And while the protest for the $4.7 billion Savannah River liquid waste contract is still pending, we are working with our customer through the process in order to resolve as quickly as possible so the transition work can begin.

To summarize, we had another solid quarter in the context of an exceptional year. We began 2017 with aggressive growth aspirations, which we exceeded in almost every measure. In addition to strong financial results, we made important organizational leadership changes, invested in technology for new markets and continued to showcase our competitive strengths, while executing and delivering value to our customers.

And 2017 earnings per share were up 16% to $2.05 on revenue growth of 9%. We achieved our increased guidance, which was well above the full year guidance we offered at the beginning of 2017. And full year operating margins increased 60 basis points to 18.6%. We continue to generate cash and follow through with our commitment to deploy capital in a balanced manner.

In the first quarter of 2017, we completed a $200 million accelerated share repurchase. In the second quarter, we increased the quarterly dividend 22% to $0.11 per share. And as John and David have mentioned, increased it again just last week to $0.16 per share. And throughout the year, we continue to position the company for growth by ramping up and making appropriate investments in CapEx and R&D. We believe that these internal investments are the foundation for sustained long-term growth.

As we look to 2018, we expect another strong year of revenue growth and are guiding to a range of $1.75 billion to $1.85 billion and non-GAAP earnings per share between $2.45 and $2.55. Our earnings per share guidance reflects $0.30 of accretion from the Tax Cut and Jobs Act (sic) [Tax Cuts and Jobs Act] of 2017, the amortization of the BWXT NEC acquisition and excludes any mark-to-market adjustments for pension and post-retirement benefits. With recent contract awards, high backlog and ramping missile tube production, we expect growth in Nuclear Operation revenues in 2018 and are guiding to a range of $1.3 billion to $1.4 billion.

As David mentioned earlier, we are adopting the pension accounting change and have reflected that -- the reclassification of pension income in our guidance. We expect operating margins in Nuclear Operations to be in the high-teens with upside potential from pension reimbursements.

In light of the surge in backlog in the Nuclear Power Group, we expect good revenue growth in 2018 and are guiding to a range of $300 million to $350 million for the segment. We anticipate that operating margins will be around 12% for the year. And lastly, with numerous recent wins in the Nuclear Services Group, we are guiding to operating income from that segment of about $20 million, representing a step in the beginning of a growth cycle.

As mentioned in our press release, we are reiterating our long-term guidance of low-double digit earnings per share compounded annual growth rate over the 3- to 5-year period, following the $2.05 we posted in 2017. Our guidance continues to reflect robust organic growth opportunities and balance sheet capacity. Note that our earnings growth rate guidance over the long term is unchanged.

To be clear, the corporate tax rate benefit will be on top of that. To support strategic growth areas, we expect about $250 million for 2018 capital expenditures. I'll remind you that capital expenditures for Nuclear Operations are recoverable in future rates. For your reference, a consolidated list of our 2018 guidance is detailed in the investor briefing available on the Investors section of our website.

In 2018 and over the near term horizon, we expect to benefit from market tailwinds and superior competitive positioning. Furthermore, we are executing an exciting and realizable growth strategy. For BWXT, we describe 5 pillars of growth: One, demand-driven growth in Navy Nuclear Propulsion; two, demand-driven growth in the Canadian commercial nuclear power market; three, technology-driven growth in nuclear technical services, coupled with market share grain -- gains; four, R&D-driven organic growth; and five, strategic acquisitions. Let me provide some quick updates on some of these growth drivers.

The Navy recently released an updated 30-year shipbuilding plan in conjunction with the 2019 President's budget request. From these, we see strong support for both submarines and aircraft carriers in the budget and in the long-range plan. There are no changes in the near term from what we had previously guided. But for carriers, we see procurement acceleration from 5-year centers to 4-year centers following a 2028 order with shipyard capacity to further accelerate carrier production to 3.5-year centers under an aggressive growth scenario.

For submarines, we are pleased to see the Navy establish a long-range plan with consistent production of 2 Virginia class submarines per year with no changes to the Columbia Class schedule. The Navy also sees possible aggressive growth scenario where a third Virginia sub is procured in the years where Virginia -- where a Columbia is not ordered. Aggressive growth scenarios are not proposed in the 2019 President's budget request and are currently not contemplated in our guidance. The Navy's plan provides a solid foundation and supports our anticipated growth trajectory for the Nuclear Operations segment as we invest capital and ramp production.

We continue to progress on a number of different R&D initiatives with our primary focus on medical radioisotopes. We have achieved several important technical milestones in the development of our proprietary technology over the past year. We acknowledge that others in the radioisotope industry are also making attempts to enter this market, but we have a strong conviction that our breakthrough technology is highly cost disruptive and entirely unique. Given our technology advancements and the rapidly maturing business relationships with existing channels to market, we are likely to provide more details before the end of the second quarter of 2018.

Lastly, on the Q3 call, we mentioned multiple M&A opportunities that may be actionable, and we continue to evaluate those. Our activity level in this area remains high, and we will provide updates when appropriate. As always, our objective is to maximize long-term value for our shareholders, and we will continue to evaluate all of our investment options against other capital allocation opportunities, including opportunistic share repurchases to offset dilution at a minimum. We currently have $150 million of share repurchase authorization.

Before turning the call over for questions, I would like to thank all of our employees for their hard work and contributing to an outstanding 2017. Their performance continues to create value for the customers and the shareholder, and we are looking forward to another excellent year in 2018.

And with that, I would like to open the line for questions.

QUESTIONS AND ANSWERS

Operator

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

Robert James Labick - *CJS Securities, Inc. - President*

So just to -- because you gave us so much to absorb, just to clarify a few things. In terms of the pension accounting change in NOG, can you highlight the moves again and how it impacts reported margins? And then also EBITDA, because it's -- if there is going to be a reduction to EBIT, should EBITDA be coming down as well? Or how should people think about that? And then finally and probably most importantly, you still guided to high-teens margins as you have in the past. So are you changing your guidance? Or what's the -- because you're taking out some of this pension reimbursement. So is the guidance actually higher? Or how should we think about that?

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

Okay, Bob, this is David. On the pension changes, what we have done is, the FASB change at this point in time, we have pulled out as we have stated 150 to 200 basis points of pension out of -- previously reported in the operational results and pulled that into other income. What still remains there is the FAS/CAS differential, and that will remain in there and is still active inside of the operations and part of the margin, and that's why we say, NOG margins continue to be projected in the high teens, which we have said forever, with an upside for pension reimbursement because that

FAS/CAS will continue still for a few years. So that continues over time. As far as guidance, we haven't changed our guidance. I mean, I think, our guidance has been always a low-double digit growth rate off of 2017. Now as Rex had said, we're going to -- on top of that, we will add any tax benefit. But our growth guidance is going to be a low-double digit guidance off our 2017 EPS results and then any impact with the change in tax reform will be added on top of that. So we continue that guidance going forward.

Robert James Labick - *CJS Securities, Inc. - President*

Okay, great. That's helpful clarity for sure. And then just jumping over to everyone's favorite topic to ask and you do kind of answer, but not entirely. In your slides you mentioned unique IP around the medical isotopes as well. So is there any more color you can provide around that in terms of where you fit in the value chain or the supply chain? Or -- and I understand Rex just said that we should learn more information as the year goes on. But is the moat fully built now? Where are you in the process? I guess, what are the next milestones and -- so we can learn where you are in the supply chain, et cetera.

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

Sure. Bob, I'll try to give a little bit of color on that. We won't disclose much for a few months. But we are well positioned fairly high in the value chain is the way that I would put it. We do have very unique technology, and we've had a number of exciting developments over the past year and into this year around that technology. We basically have been able to prove out that technology under all conditions, and we know that it works. We know that it's going to be cost disruptive. And we know that it will enable us to address a large number of isotopes on a particular kind of technology. We mentioned at the Investors Day that we could produce something like 17 different medical radioisotopes with this technology. We know we can also produce certain kinds of industrial radioisotopes, and we have the possibility of producing certain national security isotopes. So it's a very robust technology that has application over a variety of different interesting markets. We have IP protection around that technology both in the form of patent filings and also in the form of trade secrets. And we are certain it's a very unique approach to the production of isotopes.

Operator

Our next question comes from Sam Pearlstein with Wells Fargo.

Samuel Joel Pearlstein - *Wells Fargo Securities, LLC, Research Division - MD, Co-Head of Equity Research & Senior Analyst*

I wanted to ask you a little bit about the capital spending. And you had previewed, I guess, last quarter that R&D would be going up this year as well as CapEx. How should we think about this $250 million? Does it continue into '19? Is it a couple of years at this rate? How should we think about capital spending on a go-forward basis?

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

So our provided guidance for is the current year. But the -- as far as -- this will be the high of our capital, and I think it'll start going down. But we've got to be -- once again that's based on what we currently think is going to be in the forecast. Any changes to any builds for the government, we'll have to relook at that. But remember, I think, we also guided in this case that the capital of $250 million includes 2 major things for the future. One is going to be the Navy build, which still includes improvement on -- or additional capital for Columbia, the second Virginia Class for missile tubes and the growth rate there, but it also includes organic R&D capital for the medical radioisotope mainly. So those are both in there for the current year. But the future years, it will go down, but we haven't guided to where that will be. I mean, I think you can look back, a year or so ago, we were at $60 million of ongoing maintenance and then we've added the acquisition in Canada. So you'd put an adder on for that and then -- so you'd have some sort of additional maintenance for all the new capital, but it would get you to a more normal level that will come back eventually in the future.

Samuel Joel Pearlstein - *Wells Fargo Securities, LLC, Research Division - MD, Co-Head of Equity Research & Senior Analyst*

But if I look at some of the items like Huntington Ingalls has now started to talk about top line growth because of higher shipbuilding, and I understand it's not all nuclear in terms of their growth. And I think you mentioned in the 10-K that if the Navy's plan actually comes to fruition it would require more CapEx, so should I think of that as if that happens, we would stay at these higher levels for a longer period of time? Or is it -- is there potential for it actually to go higher?

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

I mean, I guess, we have to understand any future changes. The current look that we currently have on what's going to be in our forecast and our outlook, we don't think it's going to go higher at this point in time, because you've got those 2 pieces of capital, and both of those will eventually come down.

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

And Sam, I might add what this is about, of course, is getting additional capacity in the factories, because the ramp-up will require us to add capital equipment, require us to add floor space and certainly require us to add headcount. So you can think of this as a surge. It shouldn't be thought of as a normal level of capital equipment spend, CapEx spend with the future.

John A. Fees - *BWX Technologies, Inc. - Executive Chairman*

To recognize, too, that when you try to compare us to others, recognize that we are 2 years in advance of ship procurements in most of the procurements that come to us. So we kind of lead the pack typically in any kind of ramp-up associated with any work that is coming down the road.

Samuel Joel Pearlstein - *Wells Fargo Securities, LLC, Research Division - MD, Co-Head of Equity Research & Senior Analyst*

That's great. And David, can you just talk a little bit about cash from operations? If I think about from '17 to '18, from the tax change, does that help you from a cash standpoint at all in '18, pension contributions? Just can you help us in some of the big moving pieces as we think about what cash from operations looks like in 2018?

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

So your cash from operations is -- obviously tax is a benefit to us. Pension contributions, setting aside any future use of capital, if we're going to derisk the pension plan any further, our normal pension contributions are still in the $30 million to $40 million range, so there's not a lot of change there. So most of the cash from operations will improve with the growth of income in there, except now with the capital that offsets it once you get to free cash -- operating cash flow.

Operator

Our next question comes from Rob Spingarn with Crédit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Just one more on CapEx, just to make sure I'm understanding this. If we do see a third Virginia Class in non-Columbia years, that would require new capital spending that's not in the plan?

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

Yes. If we -- if a third Virginia came in, there would be some additional capital spending, Rob.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. I just wanted to clarify that. In terms of your guidance for -- I think it's NPG, did you say $300 million to $350 million?

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

That's correct.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Why the big range? I understand that this is high growth opportunity, and I assume it's timing related, but that seems like an awful big range for a number like that.

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

Some of it -- that business is -- there's a lot of book and burn nature to that business. And so we have to win contract awards, and that gives us a pretty wide range coming into a year.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

And your -- any idea of what your visibility horizon is on that? Obviously, you don't quite have it yet. So is this 3 months out, 6 months out?

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

So we come into the year with a good fraction of that business booked. And so that range that you see there sort of represents the variability coming into the year I think is a good way to think about it.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Yes, I guess, that part I do see. But I just -- I guess I'm -- what I'm asking is at what point during the year would you know which end you're going to be at?

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

Well, I think, yes, a couple of quarters into the year when we start to see visibility on the fall outages, we'll know.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then -- and just going back to a high-level question on shipbuilding and with all this growth in the SCN account and the expansion of the build quantities, are you seeing any change in your scope on these ships? Are you taking on any of the work that might previously have been done by the 2 major shipbuilders in order to just spread the work around a little bit more? Is there anything that changes there?

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

No, we haven't seen changes in our scope, and we really don't anticipate anything other than what goes on with the missile tubes. Obviously, that was a move into an adjacency for us. That's a -- it's a nonnuclear component, but obviously related to that whole nuclear naval buildup. And so we are quite well leveraged to that opportunity as you well know and as we've discussed a lot in these prior conference calls. And we are well positioned for any growth that might occur that relates to missile tubes as they -- as the ship quantities grow.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

And is there any linearity to the missile tube revenue? Or is it somewhat more volatile than, for example, the -- your traditional nuclear core revenue?

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

So we're in a ramping kind of stage on missile tubes right now. We are in fairly low production quantities. The -- certainly the client's going to get into a block-buy kind of scenario, a multiyear buy, and we'll have a much more steady production rate at that time, but we're still ramping at this point. We'll get to a steady state in probably 2 or 3 years, and then you'll get a sense for what the run rate looks like on that revenue.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And is there any way to quantify missile tube revenue?

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

Let's see here. We've put the total opportunity in the past at around $100 million a year, something like that. If I'm recalling correctly, I think that's what we've disclosed, yes, in the total market history.

Operator

Our next question comes from Michael Ciarmoli with SunTrust.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

And maybe just to stay on kind of both of Rob's topics, on the Nuclear Power, so you've got the wide range in revenue, but you're seeing the growth. What's the driver behind the margins coming down? I thought when you kind of made the GE-Hitachi acquisition, it sounded like there were potential synergies there. Just maybe elaborate on kind of the margin expectation and what are the puts and takes. If it's mix, is it just kind of related to that variability and timing with the book burn business?

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

Yes, Michael, I'll take a crack at that. Somewhat some of it is related to mix. This is probably a bit unusual in most markets, but we do a bit better margin wise on our services work than we do on our component manufacturing work. There's more component manufacturing in 2018 than there was in 2017. That was a little more service-heavy in that year. And certainly there's competitive pressure in that market. There are a number of new market entrants because of interest in the refurbishment projects that are going on in Southern Ontario as that market sort of doubles. And so we have to sort of plan that business around some competitive pressure as well. But it's a nice growth market for us, and we do expect to do well there.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

What should we think -- how should we calibrate expectations in terms of a longer term margin target there accounting for synergies, a growing market. I mean, is this a business that can get into the mid-teens? Or should we kind of think of it as low teens here? Any kind of color there?

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

I mean, I think, once again where we're comfortable in that group is to talk about our margins in 12% range. We will always try to improve that. And as we go out in time, and once again as Rex talked about, it depends on the mix as we go out in time. So if we feel there is an improvement in the future, we'll let you know if there's one we can count on going forward.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Got it. And then just on the CapEx, I guess, being split between Navy and then some of the other opportunities. So just so I understand, I think it was at the Investor Day, you guys kind of put out that prospective opportunity of -- through 2034, $4 billion revenues. This CapEx would presumably support the current plan of just the Virginia Class submarines, but doesn't include that incremental, I guess, $2 billion of revenue you called out from 3 extra Virginias and the accelerated CBN. Is that the right way to think about what kind of revenues the CapEx supports?

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

Yes. This is the Columbia, the missile tubes in the second Virginia Class that we had talked about. It's not the additional now it -- extra things that could come.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Okay. And just tying in the CapEx. I mean, is some of this spending going to be recoverable in your future billing rates? And I guess, it was kind of talked about, but free cash flow conversion obviously will be down in '18, and it sounds like that CapEx will subside. But can you guys -- you've talked about the long-term low-double digit EPS CAGR, but can you give us any color about where we should think about free cash flow and maybe conversion?

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

We don't provide cash flow and conversion, other than the fact that it's a very good. In the case of the capital, any of our capital that is NOG related or Navy related, all of that is built into our future rates. And we get recoverability of that through our rates. So that does come back to us. So -- but it's not, as we spend money now for capital, it doesn't come back immediately. So it's a timing thing that comes back over time.

Operator

Our next question comes from Asher Carey with Baird.

Asher Burton Carey - *Robert W. Baird & Co. Incorporated, Research Division - Research Associate*

I'm on the call for Peter Arment. I just want to focus on a follow-up on R&D. I was wondering, can you talk about the variability in the noncustomer funded R&D, both in the context of your long-term growth prospects in the Navy and as it relates to the medical isotope tech? Do you expect elevated R&D next year to be peaking out? Or is that a new normal? And just any commentary to collaborate our expectations directionally, that would be appreciated.

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

Asher, I'll try to put some color on that. So traditionally, we've been a low R&D spend business, right, constructed as a value shop kind of business, and our R&D has kind of run at -- certainly in a range of less than 1% of sales, at least in recent times. As we migrate towards a more product-oriented portfolio, particularly medical radioisotopes, we'll -- we will incur R&D expenses around the introduction of new products. We haven't given any guidance on what that looks like yet, but you will see R&D in the future as a bigger part of our spend.

Asher Burton Carey - *Robert W. Baird & Co. Incorporated, Research Division - Research Associate*

Okay. And that's helpful. And just one more. Just to clarify on missile tubes. Is the plan still on track to go 2 tubes a month and maintain that level of production? And like can you talk about that market a little bit in the competitive landscape? Do you expect an RFP for continuous production in the first quarter this year still? And how is that bidding process shaping up?

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

Right. So continuous production RFP will drop in the first quarter this year. We do -- as it's constructed right now for the major opportunity, which is the Common Missile Compartment and the Virginia Payload Module, there's also Virginia Payload tubes, we're positioned to compete primarily for the Common Missile Compartment tubes and the Virginia Payload Module tubes. There are 2 contractors in each area. We are the only supplier that is supplying at this point both Common Missile Compartment tubes, EMCs and BTMs. So we feel well positioned for it. We've said in the past that we thought we'd get at least half of the production quantities of those tube types, and we still believe that we're positioned to do at least half of that market.

Operator

Our next question comes from Peter Skibitski with Drexel Hamilton.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

I got on about 10 minutes late guys, so I apologize for that. But Rex, I heard your comment on aircraft carrier acceleration, and I just want to make sure I'm clear on that. I didn't notice carrier acceleration in the near-term budget. So did you say post-2028, we might get a carrier acceleration? Could you just clarify?

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

Yes, that's right. In the Navy's 30-year shipbuilding plan, it looks like those go to 4-year centers centers with the 2028 buy and possibly as much as 3.5 years in the future.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Okay, okay, great. And then Huntington, even though we didn't get like an acceleration in the near term, Huntington Ingalls is still talking about doing a multiyear potentially for a couple of carriers. Would a multiyear benefit you guys in any way?

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

Yes, it would. It would pull some carrier volume into this year and/or next year. So that would be beneficial to us. And there's still is -- there's still the matter -- Peter you would be acutely aware of this, there's still a matter of what the appropriators do with the budget this year, right. I mean, you could still end up with that Virginia in 2018 or some other kind of thing. It just depends on what they do. The authorizers have been quite aggressive. And obviously, the budget caps have been lifted. So there's upside potential in the near years around that carrier quantity buy and around additional possible Virginias.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Okay, got it, got it. And then let me just add a couple of quick more. You guys probably noticed this Dresser-Rand deal, I'm sure. Would you say, is the Navy nuclear sector fully consolidated now post this deal?

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

There is not much left. There is some small -- some almost tiny pieces here and there, but it's quite well consolidated.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Okay. So if we see any M&A for you guys now, it's likely to be non-Navy work. Is that a fair statement?

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

Yes, that's fair.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Got it. And my last one and probably for you Rex, the NASA budget that came out, I couldn't get a lot of detail out of it, but the nuclear space propulsion opportunity you guys have talked about, has the new budget -- has that changed your view on that market size or timing or anything else related to the NASA space propulsion?

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

No, I don't think we see any change in outlook on that.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Okay, okay. Same profile?

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

Yes.

Operator

(Operator Instructions) Our next question comes from Ronald Epstein with Bank of America Merrill Lynch.

Mariana Perez Mora - *BofA Merrill Lynch, Research Division - Research Analyst*

It's actually Mariana Perez Mora for Ron today. So for NOG, you mentioned potential upside for the margins from the high-teen margins. So what are the key milestones we should see in the year at that time and that could unlock risk retirement?

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

I mean, I think, when we say high-teen margins, that's normally where the margins are going to come in for NOG, unless the CAS/FAS pension and the upside's going to be the reimbursement of the pension and how that falls, so.

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

And I'm...

Mariana Perez Mora - *BofA Merrill Lynch, Research Division - Research Analyst*

It's about FAS/CAS and not risk retirement?

John A. Fees - *BWX Technologies, Inc. - Executive Chairman*

Well, an opportunistic situations relative to volume and other things, it can happen just on a productivity, I would say, performance, which we pick up periodically as you can see in our history.

Mariana Perez Mora - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay, sounds good. And then in the presentation you released last night, in Slide 8, you have the scale for Canadian commercial nuclear power. Could you please discuss how the scale will flow through your P&L?

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

Sure. Let me go to that chart. So as we've described before, that market for us has been kind of a give or take $1 billion addressable -- CAD 1 billion, addressable historically. And what you see here in this chart is a reflection of the refurbishment of 10 reactors in Southern Ontario. 10 of the 18 reactors there are undergoing refurbishment projects over a period of years from -- as you can see, we started in the middle of 2016 at Darlington Unit 2, and it goes all the way out to the middle of 2033. So fundamentally, what that does is it kind of doubles that market and kind of the run rate in that market is, give or take, CAD 2 billion over that period of time. And we see opportunities to address a large fraction of that. Some of that's not addressable, but the fraction of it that's addressable to us is pretty substantial in the area of components, in the area of services and things of that nature. Now it puts a little bit of downward pressure on fuel as these reactors go down for refurbishment, the ones that belong to Ontario Power Generation, because we provide that fuel, but is certainly more than offset by component manufacturing and other things related to projects with the outages. And when -- and I'll say that, in the Canadian market, when they talk about refurbishing a reactor, it's not like a typical reactor refurbishment with a replacement of some valves and this and that. It's a complete recoring of the reactor. So the entire core of the reactor is rebuilt. So these are quite considerable projects, and that's the reason you see the market basically doubling over that 15-year period.

Operator

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

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

Thank you, Brandon, and thank you for joining us this morning. That concludes our conference call. A replay of this call will be posted on our website later today and will be available for a limited time. If you have any 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.