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BWXT - Q3 2016 BWX Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Alan Nethery *BWX Technologies, Inc. - VP of IR and Corporate Procurement*

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

David Black *BWX Technologies, Inc. - SVP and CFO*

Sandy Baker *BWX Technologies, Inc. - President and CEO*

Rex Geveden *BWX Technologies, Inc. - COO*

CONFERENCE CALL PARTICIPANTS

Bob Labick *CJS Securities - Analyst*

Tate Sullivan *Sidoti & Company - Analyst*

Paul Dircks *William Blair & Company - Analyst*

Nicholas Chen *Alembic Global Advisors - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to BWX Technologies Inc.'s third-quarter 2016 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. 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, Investor Relations and Corporate Procurement. Please go ahead.

Alan Nethery - *BWX Technologies, Inc. - VP of IR and Corporate Procurement*

Thank you, Kate, and good morning, everyone. We appreciate you joining us to discuss our 2016 third-quarter results which we reported yesterday afternoon. A copy of our press release is available on the investor relations section of our website at BWXT.com.

Joining me this morning are John Fees, BWXT's Executive Chairman; Sandy Baker, President and Chief Executive Officer; David Black, Senior Vice President and Chief Financial Officer; and Rex Geveden, Chief Operating 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 may also provide non-GAAP financial measures that are reconciled in yesterday's earnings release and our Company overview presentation both of which are available on the investor relations section of BWXT.com. BWXT believes that the non-GAAP measures provide meaningful insight 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.

With that I will now turn the call over to John.



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

Thank you, Alan, and good morning, everyone. We had a busy third quarter with several exciting achievements and we have raised the lower end of our EPS guidance range which I will discuss later in the call. We continued to deliver strong operational performance in each of our segments with another quarter of consolidated topline growth and solid earnings per share.

Our Nuclear Operations segment continues to execute well and achieve operating profit margins of near 20%. Furthermore, our Nuclear Energy and Technical Services segments performed well during the quarter and we are on track to achieve their guidance for the year.

In addition to our operational results, we demonstrated our commitment to a balanced capital allocation approach by taking a number of actions during the third quarter.

First, we continued to deploy capital to support organic growth particularly for the Ohio replacement class of missile tubes. Second, we delivered on our promise to return capital to our shareholders, both through our announced dividend and our share repurchase activity which we ramped up by entering into a \$200 million accelerated share repurchase agreement in September. Lastly, as we discussed before, we are committed to a focused acquisition approach targeting only high-quality companies with strong market positions in our competency areas.

GE-Hitachi Nuclear Energy Canada Inc. is a company that fits that profile. The regulatory approvals and closing process are progressing well and we still expect to close the transaction in the fourth quarter of this year. Meanwhile we continue to assess other acquisition opportunities that would fit our criteria.

During the quarter, the Company achieved 6% consolidated revenue growth and earnings per share of \$0.39. Consolidated revenues for the quarter were \$380 million compared to \$359 million in the third quarter of 2015. Consolidated operating income in the quarter was \$62 million compared to the prior period of \$131 million which included nearly \$66 million of operating income related to litigation proceeds.

Our Nuclear Operations business performed well during the quarter contributing to the consolidated revenue growth as well as delivering stable operating income. Additionally our Nuclear Energy segments revenue continued to grow supported by our strong backlog.

Lastly, our Technical Services business that expectations for the quarter and performed well in existing contracts.

Before we get into the details of the operations and the segment opportunities which Sandy will present, let me turn it over to David who will discuss the segment third-quarter results and other financial matters.

David Black - *BWX Technologies, Inc. - SVP and CFO*

Thanks, John. The Nuclear Operations segment's third-quarter 2016 revenues were \$317 million compared to \$303 million in the third quarter of 2015. Revenues for the segment came in higher than third-quarter 2015 results due to increased component manufacturing activity. Third-quarter operating income was \$63 million, stable with the good results in the prior year period. Nuclear Operations delivered a strong operating income margin of nearly 20% during the quarter. Additionally, the segment's backlog was near \$3 billion over \$0.5 billion higher than the segment's backlog at the end of the third quarter of 2015.

Our Technical Services business contributed solid operating income of \$5 million which is consistent with the previous two quarters of 2016 and brings the segment's year-to-date operating income to the lower end of our guidance range of \$15 million with a quarter still remaining.

Operating income for this segment was lower in the third quarter compared to the prior year period since the segment transitioned off an Idaho joint venture project in May of 2016 and we increased business development costs related to the timing of our proposal activities.

For the third quarter of 2016, the Nuclear Energy segment increased revenue by 9% over the prior year period reaching \$38 million compared to \$35 million in the third quarter of 2015. Revenue growth in this segment was primarily due to higher volume in the equipment business related



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to the Bruce Power Unit 6 steam generator work we announced in July of 2016. Operating income in the segment was stable compared to the prior year period at around \$1 million.

The Nuclear Energy segment has contributed \$35 million of GAAP operating income and just under \$19 million of non-GAAP operating income year to date. Nuclear Energy year to date GAAP operating income includes a \$16 million benefit related to a favorable litigation ruling in the second quarter of 2016, which we have adjusted out of year-to-date non-GAAP operating income.

With the segment achieving expected results in the third quarter, Nuclear Energy continues to be on track to reach a 10% non-GAAP operating profit margin for the year. The segment's backlog is strong at \$395 million at the end of the third-quarter and it added \$28 million of bookings during the quarter primarily related to future service work.

We finished the quarter with consolidated backlog of \$3.4 billion as of September 30, 2016. Not included in the \$3.4 billion is an additional \$1.6 billion of negotiated options. This amount is primarily related to the awards we announced in April for our Nuclear Operations segment and represents the value of unexercised options which are expected to be exercised periodically through 2018 subject to annual congressional appropriations.

For the quarter, the GAAP effective tax rate was 33% and our year-to-date GAAP effective tax rate was 31%, slightly lower than our 2016 guidance of 34% to 36% primarily due to the after-tax gain related to the deconsolidation of our mPower joint venture in the first quarter of this year. Our base effective tax rate for the year excluding these discrete items is still expected to be between 34% and 36% consistent with the prior 2016 guidance.

The Company's cash and investments position net of restricted cash as of September 30, 2016 was \$67 million, a decrease of \$52 million compared to \$119 million at the end of the second quarter of 2016. Third-quarter cash flow from operating activities was approximately \$18 million which was driven lower compared to the prior year period by timing of working capital. Year-to-date cash flow generated from operating activities totaled \$81 million compared to \$239 million in the prior year-to-date period. It is important to note that the prior year-to-date period includes cash flow from our former power generation business as well as \$95 million of proceeds received from a legal judgment in the third quarter of 2015.

BWXT's cash flow is typically highest in the fourth quarter due to receipts of contract retention payments. The Company's capital expenditures as well as depreciation and amortization for the quarter each totaled \$12 million. We have updated our guidance for depreciation and amortization to reflect our year-to-date results. We now expect depreciation and amortization to range between \$45 million and \$50 million for the year.

On September 2, 2016, we entered into an amendment to our existing credit facility to add a new US dollar term loan of up to \$112.5 million and Canadian dollar term loan equivalent to \$137.5 million for a total amount of \$250 million. Shortly after entering into the amendment, we drew the full amount of the US dollar term loan. This amendment does not impact the additional \$250 million accordion provision available to us for term loans, revolving credit borrowings and letter of credit commitments.

As of September 30, 2016, we had \$289 million borrowing under our original term loan, \$112.5 million under our new term loan made available under the amendment, \$49 million drawn on a revolving line of credit and letters of credit totaling \$112 million. As a result, the Company had \$377 million of remaining availability under our credit facility which takes into account the additional \$137.5 million of capacity provided by the amendment but excludes the \$250 million accordion.

As John mentioned, during the quarter we entered into a \$200 million accelerated share repurchase agreement and received just over 4.1 million shares upon entering into the agreement. The final number of shares repurchased will be based on the volume weighted stock price of BWXT shares during the term of the ASR. Since the agreement occurred late in the third quarter, it had minimal impact on our third-quarter EPS results but the impact will be apparent in our average diluted shares outstanding going forward.

Apart from the ASR, we purchased 280,000 shares during the third quarter at a cost of \$10 million. This brings our total share repurchases up to 2.9 million shares at a cost of \$93 million during 2016 excluding the ASR. We will continue to assess our repurchase activities going into 2017. As of September 30, 2016, there were \$43 million remaining on our current \$300 million authorization.



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Now I will hand the call over to Sandy for a discussion on the third-quarter operations and segment opportunities. Sandy?

Sandy Baker - *BWX Technologies, Inc. - President and CEO*

Thanks, David. Good morning, everyone. Our Nuclear Operation segment continued its solid performance achieving strong third-quarter revenue growth with an operating income margin near 20%. Delivery of these results was again provided by smart execution in our shops and the increased manufacturing activity.

As we have discussed previously, the Navy's current submarine build schedule is set to transition to one Virginia class and one Ohio replacement class annually by the middle of the next decade. However, the Navy continues to assess the viability of producing additional Virginia class submarines.

BWXT has established numerous build schedule scenarios around this potential beginning as early as 2019 and will be capable and ready for this increased scope. While timing of availability of Congressional funding is not known, we would need to begin initial capital improvements related to this work in late 2017 in order to meet this added demand. We included this potential investment requirement as part of our balanced capital allocation approach and remain prepared to capture this appealing organic growth opportunity.

Missile tube manufacturing provides another avenue for organic growth in the Nuclear Operations business. We anticipate that around 322 tubes will be built split between the Virginia and Ohio replacement classes for a total market value of \$1.5 billion over the next 15 to 20 years. We continue to perform well on the initial missile tube work including three additional Ohio class tubes awarded in March from the Block 1 procurement and the development contract for the VPM missile tube program awarded in August. Additional VPM fabrication awards are expected in 2017.

Earlier this quarter we were informed that a competitor was awarded 22 missile tubes from the Block 2 procurement that consists of 36 tubes. The remaining 14 tubes are expected to be awarded within the next several months and we remain confident in our ability to capture this award. While this procurement reflects a lower percentage of work than we anticipated from Block 2, less than 15% of the total program tubes have been awarded and we remain well-positioned to receive a large share of the balance. We continue to invest and prepare our manufacturing facilities for this eventuality.

Our Nuclear Energy business delivered another strong quarter with revenue and operating income higher than our breakeven expectations outlined in the last call. We saw growth in our equipment business related to the Bruce Power Unit 16 generator project which kicked off during the quarter and in our services business, we saw the expected results as reduced volume drove revenue and operating income lower compared to the first two quarters of 2016. However, we remain on pace to deliver on our 2016 guidance for this segment.

The prospects in the Canadian nuclear market are high and we are confident in our ability to succeed in this market particularly with the life extension projects expected to take place over the next 15 years at Bruce Power and Ontario Power Generation. Our Bruce Power steam generator replacement project started off well and is valued at CAD130 million with the units expected to ship in 2020. We have supplied all of the steam generators installment at the Bruce Nuclear Generating Station since its construction and are excited to continue this relationship.

As Bruce Power continues refurbishment activities, we will continue to pursue additional steam generator work under our Memorandum of Understanding announced in December of last year. Bruce Power's total cost for the refurbishment is expected to be CAD13 billion with our portion of the steam generator replacement components accounting for CAD400 million to CAD500 million. We expect to perform additional equipment and service work for Bruce Power during the life extension process including the supply of waste containers, other components and various refurbishment services.

Ontario Power Generation announced in October that they have taken their first unit off-line and begun refurbishment activities at their Darlington plant. We are currently manufacturing components and providing steam generator and valve services for this lead unit and are awaiting award decisions for additional work. Overall, the Darlington life extension project concludes the refurbishment of four reactor units. The total cost of the project is expected to be CAD13 billion.

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This work will have a similar scope as the Bruce Power life extension work except the steam generators will be modified and cleaned but not replaced. We believe that our portion of the work for OPG could be between CAD300 million and CAD400 million over the life of the project.

The acquisition of GE-Hitachi is expected to expand our potential offerings to the refurbishment activities in the Canadian nuclear market. The business has excellent relationships with both Bruce Power and Ontario Power Generation and a strong reputation in the market especially related to nuclear fuel and fuel handling systems. GE Hitachi has over 60 years of experience operating in the CANDU Nuclear Products and Services industry and our operation 2 segments. Their nuclear fuel segment provides CANDU fuel bundles and components and is qualified to provide pressure tubes and calandria tubes. Their Nuclear Services segment provides engineering and specialized tooling services as well as parts to nuclear power plants.

We plan to leverage GE-Hitachi's capabilities to open up new growth opportunities within the current refurbishment space. As John mentioned, we expect the deal to close in the fourth quarter subject to regulatory approvals and other closing considerations.

The Technical Services Group continues to perform well on its current contracts and has already reached the lower end of our operating income guidance range through the end of the third quarter. The business remains especially active in the DOE laboratory, national security and environmental management areas with several near-term opportunities.

Early in the quarter, the DOE announced extensions to both the DUF6 conversion project and the NSTec project in Nevada. Late in the quarter as anticipated, we were notified that we were not the successful bidder for the DUF6 conversion project. The NSTec award decision is still open.

We saw increased business development expenses during the third quarter and this is expected to continue into the fourth quarter as we provide proposals for opportunities that will be awarded in 2017.

This segment continues to provide high long-term growth potential for which we are well suited.

That concludes our discussion on the segment operations. I would like to introduce Rex Geveden, who joined us a year ago as Chief Operating Officer of the Company. He has been working over the past several months to develop BWXT's strategic plan. I will now turn the call over to Rex for a discussion of the results.

Rex Geveden - *BWX Technologies, Inc. - COO*

Thank you, Sandy. As this is my first time on the earnings call, I wanted to say that in joining BWXT last year, I was quite excited about the Company and its prospects for future growth and that view has been strongly reinforced over these past 12 months.

We undertook a rigorous strategic planning process that lasted several months. In doing so, we identified growth opportunities available to BWXT, quantified those opportunities and developed detailed plans to capture the business.

In the middle of 2015, BWXT guided the public to a high single-digit or low double-digit earnings per share compounded annual growth rate over a three- to five-year period. Our resulting consolidated strategic plan provides detailed and credible support for this guidance. Without disclosing too much, I can say that we plan to invest in certain technologies and opportunities that will augment our existing capabilities to produce new growth in areas such as nuclear materials processing and critical and national defense component supply. These are generally high leverage opportunities in that we understand the markets, have channels to them and generally have the people and corporate knowledge to capitalize on them.

In connection with these organic growth initiatives, we plan to reinvigorate our internal research and development program to promote margins, sustainability and expansion and to deliver on longer-term growth opportunities.

Going through the strategic planning process revealed and reinforced my view of the breadth and depth of capabilities of our Company and left me very confident about our ability to grow. I look forward to keeping you up to date on our progress as we execute the plan.



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With that, I will hand the call back over to John for a discussion of the Company's outlook for 2016.

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

Thank you, Rex. The segment's guidance we provided last quarter for 2016 remained unchanged. As David mentioned, we now expect depreciation and amortization to range between \$45 million and \$50 million for the year. Additionally, we are raising the lower end of our non-EPS guidance for the full-year 2016 and now expect this to be between \$1.61 and \$1.67 per share. For your reference, the full list of our 2016 guidance is included in our Company overview presentation that we posted on our website yesterday evening.

At this point we are not releasing any specifics relative to our expectations for 2017 but we expect 2017 EPS to be in line with the high single-digit to low double-digit three- to five-year CAGR guidance that we provided coming out of the spin last year. We remain committed to our balanced capital allocation approach which was apparent during the third quarter. We are confident in our organic growth prospects including missile tubes and continue to invest capital in these opportunities.

Meanwhile the acquisition of GE-Hitachi is expected to improve our Nuclear Energy's business position in the growing Canadian nuclear services and equipment market is expected to be accretive in the first year which will provide great value to our shareholders.

We also continue to be committed to returning capital to our shareholders even with the increased capital investments and the planned acquisition of GE-Hitachi. We continue to provide a \$0.09 quarterly dividend and including the ASR, we have committed approximately \$293 million towards share repurchases so far this year representing over 7 million shares.

As David mentioned, we will continue to assess the best use of our capital going forward under our balanced capital allocation approach.

To wrap up, we had a solid third quarter that built upon a great first half of the year to put us in a position to deliver our guidance for 2016. For beyond 2016, the strategic plan developed by Rex and his team will guide us towards additional growth opportunities that fit our strategy and increase our options to participate in an even greater way in the markets we are currently serving.

Our Nuclear Operations Business segment remains a solid core business with strong margins and is positioned for continued strong performance and organic growth. In addition, we believe our Nuclear Energy Business is well situated to capture additional opportunities in the market and our Technical Service Business remains on the path for long-term operating income improvement.

That concludes our prepared remarks. I will now turn the call back to the operator who will assist us in taking your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Labick, CJS Securities.

Bob Labick - *CJS Securities - Analyst*

Good morning. Just wanted to go back on the missile tubes. Obviously you said the opportunity on batch 2 was a little bit below your expectations. Can you talk about maybe what happened there, what you learned or if you got any information and what changes you will make going forward?



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Sandy Baker - *BWX Technologies, Inc. - President and CEO*

Yes, Bob, this is Sandy. We do have some information, it was a competitive bid and it was awarded based on price and obviously our price wasn't good enough. So one lesson learned. Going forward, I think we will be a bit more aggressive in our pricing stance for this segment.

If you look at the combined Block 1, Block 2 buy, we have about half of those and our competitor has about half so we are about up to the 50% mark for missile tubes awarded. I expect that to improve and to get us -- and we will be at a point where we will have a majority of that market later on by Block 3.

Bob Labick - *CJS Securities - Analyst*

Okay, great. And then just shifting gears a little bit, nice looking acquisition in the GE-Hitachi. Can you talk about the M&A market? Are there more opportunities up in Canada for you to continue to grow in Nuclear Energy or what is the thought process there?

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

We are going to certainly eat the meal that we have in front of us. That is certainly priority one. We haven't finally closed and we haven't completed all of the transition activities. But we are excited about the size of the market, the things that are available. We are keeping our eyes on potential other opportunities and that allows us to not only assimilate what we are doing but potentially broaden our approach towards the customers. We really like Canada as a nuclear market. We have been very successful there, have great relationships with the utilities and any opportunity we have to enhance that going forward we are going to certainly take advantage of.

So there may be some opportunities and we will keep you abreast on those as they occur. It is within our framework of thinking.

Bob Labick - *CJS Securities - Analyst*

Okay, great. Thanks very much.

Operator

Tate Sullivan, Sidoti.

Tate Sullivan - *Sidoti & Company - Analyst*

It's great to hear on the call that you commented that you still expect the EPS growth in the high, mid to high single-digit to low double-digit growth. That was great to hear. Separately, on your comments on potentially the US adding an additional Virginia class sub, does it mean that you have to plan differently that it is Virginia class versus Ohio replacement? Are the specs different for a new reactor? And based on previous cycles or based on previous times when you have to spend more money, how much may you have to spend to prepare for an additional submarine build?

Sandy Baker - *BWX Technologies, Inc. - President and CEO*

We can't really give you a whole lot of about the difference in specs between different reactor plants or anything about specs relative to reactor plants. But the comment I would make is that we are continuing to assess scenarios with our customer. We are looking at the possibility of this occurring. We are rather positive about that potential outcome. But we are not yet taking it to the bank and so we continue to look at that.

Capital spending, it just depends on timing and where we go. Based upon some projections, we may need to start investing capital in calendar year 2017 to prepare ourselves and I would say that the range those up and down a bit but nominally if we are going to be building extra Virginias



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to replace the Virginias that were not in the forecast with Ohio replacement coming in, we are looking at \$100 million or maybe less and I think we gave that number in the last phone call.

So we are still somewhere in that framework and we continue dialogue with our customer about their needs and what we can best do to serve the program.

Tate Sullivan - *Sidoti & Company - Analyst*

Okay, thank you for that reminder. I think you mentioned too that if you do go forward let's say in that planning prospect and start spending that money in the second half of 2017, let's say what is the timeframe earliest to get any EPS benefit from building an additional submarine? And would it come over a period of one to two years or how do you think about that based on your historic experience?

David Black - *BWX Technologies, Inc. - SVP and CFO*

We are going to start putting in capital, we are still stating in 2017 if the timing is right but we are still stating that the impact for EPS is probably going to be 2019 for the actual manufacturing start of the submarine.

Tate Sullivan - *Sidoti & Company - Analyst*

Okay, thank you very much.

Operator

Paul Dircks, William Blair.

Paul Dircks - *William Blair & Company - Analyst*

Good morning, guys. First question for me, appreciating the fact that last year's free cash flow included the B&W Power Generation business in the legal settlement. Has free cash flow this year tracked in line with your expectations? And I guess related to that with some of the organic growth initiatives you guys are looking to capture here, should we expect a higher level of working capital investment going forward or what are some of the drivers that you can point to to suggest improvement beyond the usual seasonal improvement that we usually see here in the fourth quarter?

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

When we look at cash flow, we really look at it from a year because of the seasonality of how some of these payments come in and even if we look at last year compared to this year, our last year third quarter was higher or almost as high as our fourth-quarter whereas our anticipation this share is our fourth-quarter is going to be the highest. So there is movement from year to year that we have to look at.

From a year standpoint, we don't anticipate any issues with our cash flow. We are a cash generating business. We are a taxpayer with the rates that we say or we suggest and the pension volume for the year suggests about \$20 million. Working capital fluctuates. Sometimes when we win a TSG, Technical Services bid, there is some initial working capital that is needed. So as we look at our balanced capital allocation approach, we are looking at new bids that we are winning with TSG compared to the acquisitions compared to how the cash is flowing and then the capital we need for Virginia class and missile tubes. So we are constantly looking at what the need is and how the cash is going to be flowing to keep an eye on that but we don't anticipate any issues and are not surprised by what has happened.



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Sandy Baker - *BWX Technologies, Inc. - President and CEO*

The other thing that I think that is important to remember is that the markets that we serve and the things that we do are typically within the terms that we have historically operated within. So as we would add organic growth going forward, we would fully anticipate to be somewhat within those terms. So other than some of the seasonality, the quarter closed bump to bump kind of thing as David described, we would expect organic growth to maybe consume a little bit of working capital but we also expect them to be cash generating businesses and not long-term working capital swings. So that is just our view of how things work.

Paul Dircks - *William Blair & Company - Analyst*

That is helpful. I appreciate that color. On the GE-Hitachi Nuclear Energy Canada acquisition, can you give a little bit of color on how the transaction came together? And in the prepared remarks, you guys mentioned that you expect the acquisition to open up new growth opportunities in the refurbishment space. Is that simply a byproduct of you adding the Company or are there specific opportunities that because they are now going to be part of BWX that you will be able to capture those? In other words, your market position is enhanced by the combination of your businesses?

Rex Geveden - *BWX Technologies, Inc. - COO*

Yes, this is Rex Geveden. I will take that one on. The GE-Hitachi acquisition was really sort of a consequence of our strategy for growth in that market. It came about naturally. It was a company to company contact and we do in analyzing that acquisition, we do see cost synergies with that acquisition as you would normally expect but we do see revenue synergies as well. And those are related primarily to the plant life extension work that is happening there. I would say GE has recurring revenue streams around the fuel business, around the fuel handling, around channel diagnostics. We like that, we like recurring revenue streams. But we also like the possibility of working with that company post closing, post transaction to go after some business that is related to the refurbishment or the reactors both at OPG and at Bruce.

So we do see interesting revenue synergies there and we think it will be a great business to add to our portfolio.

Paul Dircks - *William Blair & Company - Analyst*

That is helpful. That is all for me. Thank you.

Operator

Nicholas Chen, Alembic Global.

Nicholas Chen - *Alembic Global Advisors - Analyst*

Thanks for taking our call this morning. First question, I was hoping you guys could just discuss some of the drivers between the high and low end of the guidance range which you narrowed?

David Black - *BWX Technologies, Inc. - SVP and CFO*

I think we are now going into the fourth quarter of the year and just looking at the opportunities we have and where we feel we are going to fall into the guidance, it was a point in time that we could tighten that guidance up. I mean the fourth quarter we still have expectations of some cost savings to run through our Nuclear Operations Group shop. So there is still a lot of hard work in order to get us to where we need to be. But we feel more comfortable at this point in time as we tighten that guidance that we are going to fall within the \$1.61 to \$1.67.



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Sandy Baker - *BWX Technologies, Inc. - President and CEO*

Yes, and the guidance and the drivers for our guidance are no difference than what drive our performance for the year at this particular point in time. The base business as we operate it and manage it, our margins, our ability to be able to optimize the volumes in our facility, keep our costs low, those are the kind of things that we operate on every day. And so there is no unique driver in the fourth quarter that is going to influence it differently than it has been influencing it all year. We just have a better focus with three more months to go.

Nicholas Chen - *Alembic Global Advisors - Analyst*

Got it. And then if you could give a little bit of color, I think at some point there had been some discussion about maybe a second chance to bid on the Y12 and Pantex contracts. Is that actually a thing?

Sandy Baker - *BWX Technologies, Inc. - President and CEO*

When the time comes and that is probably at least a couple of years away, but yes, when that is put back in play, we will certainly be looking at that as an opportunity for BWXT to again help the government with running those sites.

Nicholas Chen - *Alembic Global Advisors - Analyst*

All right, great. Thanks so much. I will jump back into the queue.

Operator

Tate Sullivan, Sidoti.

Tate Sullivan - *Sidoti & Company - Analyst*

Thank you for taking the follow-up. Can we drill down on Nuclear Energy a little bit and then you gave some good indication on how you look at that business long-term. But how should the Street, how should investors look at the margins quarter to quarter in that business and how consistent can you get those margins? I mean, I have just sensitivity wise, I bring down that margin to 2% in 4Q to get to your guidance of 10% for the full year. So can you give more context on how you look at margins in that business?

David Black - *BWX Technologies, Inc. - SVP and CFO*

As we stated in previous quarters we like to look at that margin guidance by year because there is volatility inside quarters for the margins of any and that is mainly because of the outages and where we do service work and how things are flowing through the business. So we like to look at it at the year because we get our hands around that and be very close to that margin. Now those margins as we get into next year, 2017, those margins will look different because remember when we said we were acquiring GE-H that we said that the margins any post-acquisition the GE-H will be positive to those margins.

Now we didn't give any indication at that point in time how positive they will be but the margins are going to go up a little because of the GE-H acquisition. So right now we look at it in a year timeframe. When we get our hands around GE-H and that gets in there, I think that will provide a little more stability into those margins but those 10% a little more is where we are going to be.

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Tate Sullivan - *Sidoti & Company - Analyst*

Thank you. Can you follow-up on -- I mean why it makes sense to be in this business along with your core business in Nuclear Operations in the long-term? Is it the potential opportunity of all of the Canadian refurbishment work that will come? Is it other work in other parts of the world? Can you follow-up on that please?

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

If you think about the base capability of the Company, the things that we do in Canada very much capture the fundamental base capabilities of the Company, how you design and manufacture hardware related to operating nuclear reactors, capturing steam, generating power. But the GE-H acquisition, it adds the fuel element to it which has been a fundamental for the Company for a long period of time. So it very much enhances -- or the acquisition very much enhances the background and capability that we have. It is not new to us, it is not out of character for us to manage the nuclear fuel business.

We certainly like the basis that this business brings. With the upgrade programs that are going on in Canada, they are bold and strong and we have very strong market positions there and we think we can do a good job serving this customer and be a very reliable supplier for them. And so we are focused in that area.

Where it goes beyond that, certainly does have some international opportunities. They are not overly big and somewhat limited but we will plan on continuing to serve those markets to the degree we can. As we all know, nuclear right now from an energy sense in the world is seeing somewhat as an expensive option with low natural gas prices. But where we can support in niches and be a long-term nuclear player, certainly within our fundamental interests.

Tate Sullivan - *Sidoti & Company - Analyst*

Okay, thank you very much.

Operator

There are no additional questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Alan Nethery for closing remarks.

Alan Nethery - *BWX Technologies, Inc. - VP of IR and Corporate Procurement*

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 be available for a limited time. If you have further questions, please call me at 980-365-4300. Thanks.

Operator

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

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