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BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to BWX Technologies, Incorporated second-quarter 2016 earnings conference call. (Operator Instructions). 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, IR & Corporate Procurement*

Thank you, Andrew and good morning, everyone. We appreciate your joining us to discuss our 2016 second-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; 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. 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 in the Investor Relations section of BWXT.com. BWX Technologies believes 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. And with that, I will now turn the call over to John.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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

Thank you, Alan. Good morning, everyone. We had an outstanding second quarter. We reported impressive growth on both the top and the bottom line while finishing the quarter with a record amount of backlog. We booked over \$1.6 billion worth of work, the highest quarterly bookings in the history of the business. Furthermore, we remain committed to returning capital to our shareholders, which I will discuss later on the call.

Heading into the second half of 2016, BWXT is well-positioned to deliver on our commitment to a balanced capital allocation approach and our forecasted operating performance, which leads us to increasing guidance for the year. For the quarter, the Company achieved 13% consolidated revenue growth and a 32% non-GAAP operating income growth. Consolidated revenues for the quarter were \$402 million compared to \$357 million in the second quarter of 2015. Consolidated GAAP operating income was \$88 million compared to GAAP operating income of \$12 million in the second quarter of 2015. And non-GAAP operating income was \$72 million compared to non-GAAP operating income of \$55 million in the second quarter of 2015.

Our nuclear energy business continued to deliver impressive revenue and operating income growth in the second quarter due to an increase in outage workage at our nuclear operations business achieved its highest second-quarter revenue in three years leading to solid operating income growth. In April, we announced we were awarded a new pricing agreement with the U.S. Navy nuclear component in fuel work, as well as a new downblending contract. Additionally, we are excited to continue our long history of supplying steam generators to Bruce Power with CAD130 million steam generator design and build contract we announced in early July. These awards led to the Company posting a record amount of quarterly bookings and backlog at the end of June. Our consolidated backlog stands at \$3.7 billion compared to \$3 billion at the end of the second quarter of 2015.

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

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

Thanks, John. The nuclear operations segment second-quarter 2016 revenues were \$326 million compared to \$292 million in the second quarter of 2015. Revenues for the segment came in higher than second-quarter 2015 results due to favorable timing on long lead material, as well as increased volume. Second-quarter operating income was \$64 million, up from \$61 million in the prior-year period due to revenue growth from long lead material timing.

Site feed performance in our technical services business improved during the second quarter of 2016 compared to the prior-year period. However, total segment operating income was down \$1 million compared to the corresponding period of 2015 due to timing of our proposal activity leading to an increase in business development costs.

For the second quarter of 2016, the nuclear energy segment achieved revenue growth of 19% over the prior-year period, reaching \$54 million compared to \$45 million in the second quarter of 2015. Revenue growth in this segment was primarily due to an increase in outage and inspection work, as well as higher volume in the equipment business related to the execution of various steam generator projects.

GAAP operating income increased from \$2 million in the second quarter of 2015 to \$26 million in the second quarter of 2016. Nuclear energy GAAP operating income includes a \$16 million benefit related to a favorable litigation ruling, which we have adjusted out of non-GAAP operating income. The litigation relates to a lawsuit involving a royalty dispute in which we received an unfavorable ruling in December of 2014. We subsequently appealed and received a favorable ruling from the Virginia Supreme Court during the second quarter of 2016. We have eliminated the \$16 million loss contingency we booked in the fourth quarter of 2014.

The non-GAAP operating income growth was driven by the revenue growth in the services and equipment businesses, as well as lower fixed costs related to our margin improvement initiatives completed in 2015. Bookings for the quarter decreased \$75 million compared to the prior-year period, which was the highest quarterly bookings for the business in nearly 5 years. However, the business's backlog continues to strengthen and

AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

was \$405 million at the end of this quarter compared to \$381 million in the second quarter of 2015. This is our highest backlog since the third quarter of 2011.

As John mentioned, we finished the quarter with a record amount of consolidated backlog, with \$3.7 billion as of June 30, 2016. In addition, we are now reporting non-booked backlog negotiated but not yet funded, which stands at \$1.6 billion at the end of the second quarter. This amount is primarily related to the awards we announced in April and represent the value of unexercised options, which are expected to be exercised periodically through 2018 subject to annual Congressional appropriation.

For the quarter, the GAAP effective tax rate was 34.5% within our 2016 guidance of 34% to 36%. The Company's cash and investments position net of restricted cash as of June 30, 2016 was \$119 million, an increase of \$39 million compared to \$80 million at the end of the first quarter of 2016. Second-quarter cash flow from operating activities was approximately \$81 million. Year-to-date cash flow generated from operating activities totaled \$63 million compared to \$83 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 and BWXT's cash flow is typically lower during the first half of the year compared to the second half since employee incentive payments are paid in the first quarter and the receipt of contract retention payments does not occur until the second half of the year.

The Company's capital expenditures for the quarter totaled \$8 million, which is \$5 million lower than the capital expenditures in the second quarter of 2015 due to timing of certain projects, as well as higher corporate expenditures in the prior-year period related to the spinoff of our former power generation business.

Depreciation and amortization for the Company was \$13 million in the second quarter compared to \$15 million in the same quarter last year. We still expect capital expenditures in 2016 to be between \$55 million and \$60 million with depreciation and amortization in a range of \$40 million to \$45 million, consistent with our previously provided guidance.

As of June 30, 2016, we have \$293 million borrowing under the term loan and letters of credit totaling \$112 million under our credit facility. Our liquidity under the credit facility is \$288 million, which excludes the additional \$250 million accordion provision available to us for term loan, revolving credit borrowings and letter of credit commitment.

We purchased just under 1 million shares during the second quarter at a cost of \$32 million. This brings our total share repurchases up to 2.6 million shares at a total cost of \$82 million during 2016. As of June 30, 2016, there were \$253 million remaining on our current \$300 million authorization that expires in February of 2018.

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

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

Thanks, David. Good morning, everyone. Our nuclear operations segment continued its solid performance achieving strong second-quarter revenue and operating income growth. Delivery of this result was again provided by smart execution in our shops. As John mentioned, we achieved both record bookings and as a result record backlog in the quarter due to awards announced in April for Navy nuclear components and fuel, as well as highly-enriched uranium downblending.

We continue to perform well on the initial missile tube work and have submitted proposals for additional work related to both the Virginia-class and Ohio Replacement class submarines. We expect the total market opportunity for missile tube work split between the Virginia and Ohio Replacement classes to be \$1.5 billion over the next 15 years. We expect to win a significant portion of this work.

We anticipate the contract from the Virginia-class missile tubes to be awarded within the month, and the contract on the Ohio Replacement class missile tubes to be awarded in the fall. But this award could be pushed to the beginning of next year depending on timing of the funding approval.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

On the shipbuilding front, once the Ohio Replacement program starts, the Navy's current build schedule is set to transition from two Virginia-class submarines per year to one Virginia-class and one Ohio Replacement annually by the middle of the next decade. However, the Navy continues to assess the viability of producing additional Virginia-class submarines once the Ohio Replacement program begins in order to support the Navy's needs.

While any additional submarine production is subject to Congressional funding, we would need to begin initial capital improvements related to this work in 2017 in order to meet the additional demand. If this materializes, it represents an excellent organic growth opportunity. It would, however, require a meaningful capital investment above our current capital expenditure level, which is sized for the baseline shipbuilding plant.

Additionally, there is discussion to increase the aircraft carrier build rate from one every five years to one every four years, which could provide additional organic growth for the nuclear operations business. These considerations are preliminary and are not nearly as far along as the discussions related to the additional Virginia-class submarine. Nevertheless, we will be watching the progress of these discussions closely and provide updates when they are available.

Our nuclear energy business delivered another great quarter and we are excited about the long-term prospects for this business. We continue to perform well in our equipment business related to various steam generator projects, which contributed to our revenue and operating income growth in this segment. In addition, we had higher volume in our Canadian services business during the second quarter primarily due to increased outage work. In total, nuclear energy service business had 12 planned outages in the spring, which are now complete, but only four planned for the fall. As a result, our service business volume is expected to drop leading to breakeven second half of the year. However, given the segment's strong first-half performance, we still forecast achieving the revenue and operating income margin guidance we've provided for 2016.

The prospects in the Canadian nuclear market are strong and we are confident in our ability to continue to win work in this market, particularly with life extension work expected to take place over the next 15 years at Bruce Power and Ontario Power Generation. In December of last year, we announced the memorandum of understanding with Bruce Power for supplying replacement steam generators for the four Bruce "B" units. Last month, we announced we were awarded the first steam generated design-and-build contract for Bruce Power's Unit 6 reactor under the memorandum. The contract is valued at CAD130 million and the units are expected to ship in 2020.

We have supplied all of the steam generators installed at the Bruce Nuclear Generating Station since its construction and we are excited to continue this relationship. Bruce Power's total cost for the refurbishment is expected to be CAD13 billion with our portion of the steam generator replacement component accounting for CAD400 million to CAD500 million of the total. We expect to perform additional equipment and service work for Bruce Power during the life extension process, which would add to the steam generator work.

Regarding the Ontario Power Generation life extension project, we are currently manufacturing components and providing services for the lead unit, which is scheduled to shut down later this year. Overall, the Darlington life extension project includes refurbishment of four reactor units with a total cost of the project expected to be CAD13 billion. The work will have a similar [stroke] to the Bruce Power life extension work except the steam generators will not be 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 technical service group continues to perform well on its current contracts leading to a strong first half of the year and the business remains especially active in the DOE laboratory, national security and environmental management areas. In May, we transitioned off the advanced mixed waste treatment project as expected and benefited from favorable fees related to the successful transition of the project during the second quarter. We expect to spend more on business development during the second half of the year related to opportunities that will be awarded in 2017 and beyond. We still expect to deliver on the operating income guidance we've provided for the full-year 2016.

That concludes our discussion on segment operations. I will hand the call back over to John for a discussion of the Company's outlook for 2016.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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

Thanks, Sandy. In the earnings announcement we released yesterday evening, we provided updated guidance for 2016. Due to our impressive first-half results and the strength of our operations, we are increasing our non-GAAP EPS guidance range by \$0.07 per share to be between \$1.57 and \$1.67 for the full year of 2016. The increase is primarily driven by higher-than-expected operating income in the nuclear operations business due to favorable timing of long lead material, as well as contract improvements. As a result, we are increasing our consolidated revenue guidance range by \$50 million and now expect \$1.45 billion to \$1.5 billion of revenue for the year.

We expect our nuclear operations revenue to be at the higher end of the levels we recorded over the prior three years. We are maintaining our operating margin guidance for the nuclear operations business to remain in the high teens with some potential for upside. As Sandy mentioned in his discussion on the nuclear energy and technical services business, we do not expect to match the impressive first-half results from these businesses during the second half of the year.

For nuclear energy, the second half will be lower due to significantly lower planned outage work during the fall; however, we still expect to meet our 10% adjusted operating margin target for the year and this represents a more normalized operating margin for the business going forward.

For technical services, the first-half results were driven by favorable fees associated with the transition of the advanced mixed waste treatment project, and the second-half results are expected to be driven lower by higher business development costs. As a result, we are reaffirming our previously provided guidance for both of these businesses. All other previously provided guidance remains the same and, for your reference, the full list of our 2016 guidance is included in our Company overview presentation that we issued yesterday evening.

We continue to execute on our balanced capital allocation approach [and] are committed to returning capital to our shareholders. We repurchased approximately \$82 million of shares so far this year and over \$150 million of shares since the spin. We announced yesterday that we are looking at options to accelerate our share repurchase rate and to fully utilize the \$253 million that remains of our current \$300 million repurchase authorization. In addition, we remain very active in pursuing potential acquisition targets. And, lastly, we continue to provide a \$0.09 quarterly dividend.

To wrap up, we had a great first half that exceeded expectations and has driven our full-year 2016 guidance higher. For beyond 2016, we continue to look for growth opportunities that fit our strategy and evaluate options to participate in an even greater way in markets we are currently serving. Our nuclear operations business remains a solid core business with strong margins and is positioned for continued strong performance and organic growth going forward.

In addition, we truly believe in our nuclear energy business and are looking for ways to more broadly participate in our markets and with a robust pipeline that exists, the technical service business remains on a path for long-term operating income growth.

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

QUESTIONS AND ANSWERS**Operator**

(Operator Instructions). Chase Jacobson, William Blair.

Chase Jacobson - *William Blair - Analyst*

Good morning. Nice quarter. So I don't think this first question is too surprising, but, John, I was hoping you could maybe expand, provide a little bit more color on your comments about looking at options to accelerate the share repurchase rate. Does that mean just to hit the full authorization by the beginning of 2018, or is that looking at options to get it done sooner than that?



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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

We are not really providing any further color on that at this particular point in time. It's only to say that the pace that we started earlier this year, we were a little bit behind that pace this quarter. We wanted to make sure that it was a really strong indication today that we are committed to completing the authorization. We have no limitations in terms of doing that from a capital standpoint.

If you take a look at the forward -- even if you consider all the forward needs of capital that we need for potential expansion of the Naval reactors business, if you take a look at the dividend, if you take a look at this particular issue, which is completing this authorization, as well as continuing a dividend somewhere in and around the level that we have, we have really no limitations there still keeping within a reasonable level of leverage on our balance sheet. So we just wanted to make sure everybody understood that this is important to us and that we intend on accelerating the pace to assure ourselves that we continue on this track to complete that authorization. So that's about as far as we are saying today.

Chase Jacobson - *William Blair - Analyst*

Okay. That's helpful. That actually answered part of my next question. Also, I wanted to ask about the confidence level, how far along these talks are for the potential incremental Virginia-class sub because I know, in Sandy's remarks, I think you said that the consolidation or the acceleration of the aircraft carrier schedule was not nearly as far along as the Virginia. I don't know if that means the Virginia-class talks are actually pretty well advanced or not, but any color you could give there?

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

The thing that we are trying to provide is there's been a lot of talk in industry and there's been a lot of talk out on the Street about the potential for this to occur. And we've been receiving a lot of questions. We are trying to give the correct color on really where this stands. And really where this stands is we've had some very good discussions about where this could potentially go, but we want to make sure everybody understands that none of that is solidified at this point. I think that our government customer is evaluating options. I think there's positive momentum is the way that I would characterize it. But I'm not at the point where I would book it.

We still have a way to go, including our discussions that we potentially could have with the government, Congress authorizing it and the reality of it coming true. But I think it's a nice positive outcome that we are supportive of and I think we can support -- I think one of the most important things is that we can support -- we feel we can support the needs of our customer in this particular area and we want to make sure we can do that.

Chase Jacobson - *William Blair - Analyst*

Okay. Just one clarification. The \$1.6 billion of backlog that's not yet funded, that is not in the reported number, correct?

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

Right. That's only in the notes; it's not in our backlog. I said in the future that we negotiated \$3.1 billion this spring and only \$1.4 billion of that went into backlog, so this is the remainder of that that we will keep a tally on so that the Street will know that there's still negotiated, but unfunded backlog out there that's not a part of our backlog.

Chase Jacobson - *William Blair - Analyst*

Okay. That's great. Thank you, guys.

AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

Operator

Tate Sullivan, Sidoti.

Tate Sullivan - Sidoti & Co. - Analyst

It's great to see the continued great performance in nuclear ops, but your other smaller businesses continue to show progress. Starting with nuclear energy, was any of the work you did in the most recent quarter in the US? Is there any change in the market in the US, and as part of being breakeven for the rest of the year in that business just continuing to have all the employees to take advantage of future opportunities too?

Sandy Baker - BWX Technologies, Inc. - President & CEO

The change in the market in the US is just as we highlighted. Both in the US and Canada is our service work on the outages are fewer, much fewer than what we saw in the first half. I think that's just the nature of the business. We had previously reported to you guys that the second half of the year was going to be bumpy and lumpy. That's the way we still see it. There's work in the backlog. Unfortunately, we are not going to see a lot of that happen in the second half of the year. It spills all the way into 2017, so -- but the work that was done in the first quarter to provide us the returns that we got is going to make us whole as we predicted for the year on that business at 10% margin.

Tate Sullivan - Sidoti & Co. - Analyst

Can you do the work that you do out of your manufacturing facility in Canada for US projects?

Sandy Baker - BWX Technologies, Inc. - President & CEO

You can, yes. We have built replacement steam generators for the US market in our Canadian facility.

Tate Sullivan - Sidoti & Co. - Analyst

And are you done with the China boiler work?

Sandy Baker - BWX Technologies, Inc. - President & CEO

No. In fact, that work is in its infancy. The material is ordered, but not received, so we haven't really started that effort in Canada yet.

Tate Sullivan - Sidoti & Co. - Analyst

Oh well. Okay. My last one is can you just go into more detail on what the favorable timing of long lead material -- what is that?

Sandy Baker - BWX Technologies, Inc. - President & CEO

A lot of the material that we use are large, heavy forgings and some fairly unique material types and you place the order and the lead times on that material can be as much as a year and on some of the forgings, it can be 18 months. So you place the order, you don't see the material for a year, year and a half to start the actual fabrication work.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

Tate Sullivan - *Sidoti & Co. - Analyst*

Okay. Thank you very much.

Operator

Nick Chen, Olympic Global Advisors.

Nick Chen - *Olympic Global Advisors - Analyst*

Congrats on a great quarter. In terms of the capital allocations, you guys already gave a few more details, but is the pace of the share repurchase baked into the guidance right now, or could the guidance prove conservative if you guys accelerate the program?

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

There is some guidance, some share repurchase in the guidance. So obviously until we complete the quarter, we don't know what's there either, but we have not provided what is inside of the guidance as far as share repurchases, but as John says, as we look at the rest of the remaining available on the authorization, we are going to look at options to try to complete that authorization within that timeframe. And we have the capacity to do that.

Nick Chen - *Olympic Global Advisors - Analyst*

Okay, great. And then just finally, obviously, it was a great quarter for bookings in the nuclear operations segment. How should we think about the burn rate going forward? Does anything change there or does it remain steady obviously just with a bigger backlog?

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

No, there should be no change there. It's the same division we had; it's just that we had a lot of bookings and a lot of improvement in our bookings at this point.

Nick Chen - *Olympic Global Advisors - Analyst*

That's great. Thanks so much.

Operator

Michael Ciarmoli, KeyBanc Capital Markets.

Unidentified Participant

This is actually Kevin on for Mike. Thanks for taking my question. Just keeping on the topic of NOG, I was hoping you guys could talk a little bit about pension sensitivity and maybe what a 25 basis point change to the discount rate would mean in terms of what's flowing through that segment and do you guys still see it as a tailwind in 2016? And then also tied into that, margins were at a multiyear low here in the quarter. Maybe just talk a little bit about the puts and takes there.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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

So, as far as pensions, what we have provided to this point, and we have provided inside of our documents the difference between CAS and FAS each year as in the past. We talk about pension funding in the future. More or less pension funding is \$20 million this year and a portion of that is Canadian. We anticipate that funding to be going up in the future, but we haven't provided sensitivity analysis to the pension and what that's going to do to the rates for the future.

Obviously, as everyone knows, pension is driven a lot by market return on assets and driven by the discount rate that we utilize. So there's a lot of changing numbers inside the pension, but for right now for the next handful of years, we anticipate the CAS/FAS differential to be what it is today because with the outlook over the next handful of years, it will stay the same.

Unidentified Participant

Just on the margin side, volumes were up in the quarter. You talked about the long lead time items being favorable, but margins were still down. Could you quantify what was going on there?

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

Once again, we will find as we do percentage-of-completion accounting as we go through NOG that there is going to be some volatility and flux inside of both volume and margins as we go through that. So they are not going to match over time as evenly as we'd like to see them and be able to explain it. So there will be and is some of that volatility as we go through time. We continue to project that we are going to earn in the high teens margins with the ability for some upside there, and we came in this quarter in the high teens still at 19% plus, so we anticipate that to continue.

Unidentified Participant

Okay. That makes sense. Thanks. And then just turning quick to nuclear energy, you talked about the falloff in the second half here. You mentioned I think four planned outages. Are those fairly steady over -- in terms of cadence -- over 3Q and 4Q, or should we expect one quarter to be notably stronger than another?

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

Once again, we don't provide the cadence. What we provide is an outlook for the year and we know we can make our 10% margin for the year. We know the four outages are coming in the fall. Obviously, you don't have the revenue and the margins in the fall, that means, to offset what we had in the spring of 12 outages. So your fixed costs aren't going to be covered as well as you would have in the spring. We anticipate for the year that we will meet our 10% guidance in that division -- segment.

Unidentified Participant

Okay. And then last one from me. Maybe if you can just talk a little bit about the missile tube programs in Ohio class and where those are running relative to expectations. I know you mentioned there's some more opportunity out there on those and what you are seeing in terms of organic growth from those.

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

The missile tube business is quite good. We are close to completing our first tranche of missile tubes that were awarded. We are in negotiations with our customer on the second tranche and so I can't talk a lot about that, but the Ohio-class Replacement and the Virginia-class programs are both going to need those missile tubes over the next 14 years, 15 years. And so there's a fairly sizable quantity in the neighborhood of 332 tubes



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

that have got to be manufactured and BWXT is positioned very well to manufacture the largest quantity of those. So it provides a great opportunity from an organic standpoint for the Company and we are pursuing that very hard with our customer and expect that to continue because both of those programs are in need of them.

Unidentified Participant

All right. Thanks, guys.

Operator

Bob Labick, CJS Securities.

Bob Labick - *CJS Securities - Analyst*

To follow up on that last question, assuming you do win the award for the missile tubes, when would that start to hit the P&L?

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

It will be 2017.

Bob Labick - *CJS Securities - Analyst*

Okay. That's the full run rate, or is that just the Virginia in 2017 and then the Ohio is later than that or how --?

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

That's both.

Bob Labick - *CJS Securities - Analyst*

That's both? Okay, great. And, obviously, great quarter and you raised your guidance, but still a pretty big range given only two quarters left. What's the biggest drivers between the high end and the low end of the range, and obviously if you came in at the low end, earnings would be down a fair amount year-over-year. What would be the drivers for declines given the strength in the business and the outlook and everything else that we've seen that's been so positive?

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

We are six months into the year, so we wanted to take up the guidance so we feel comfortable with the \$0.10 guidance from \$1.57 to \$1.67.

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

We look at it a little bit the other way. We feel like we've cut the bottom end off further, so we think we've got good strength in the business. We felt that the bottom end that we had before was too low and we thought the high end was not high enough and that's the reason we ended up moving it in the range we did. We decided to keep the variance about the same at this point in time. I think we will know more at the end of the third quarter.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

Bob Labick - *CJS Securities - Analyst*

You are doing fantastic, so keep it up. Thank you.

Operator

(Operator Instructions). Pete Skibitski, Drexel Hamilton.

Pete Skibitski - *Drexel Hamilton - Analyst*

Good morning, guys. Nice quarter. I guess on the NOG guidance, it looks like you are slightly more positive on the guidance. I think I missed what you said about that. Is that more tube work coming in, or long lead, or something else that I am missing? Can you talk about why that boost to the guidance there?

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

I think we just talked about that the missile tube work will come in 2017, so we just say improvement in the NOG contracts and the cost of the contracts and just the performance overall, some of the companies and the long lead material and then the rest of the Company, just the performance we feel that allowed us to raise the guidance at this point in time.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay. And then can you help talk about why -- it almost still seems conservative, specifically on the NOG segment revenue because it implies even if you are at \$1.2 billion for the year, you'd be down sequentially from the second quarter. So is there a specific reason for that?

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

Once, again, I think quarter to quarter it's very difficult just because of the percentage of completion, the way the cost savings works through the contracts, you are not going to get an even split of revenue over the period. We look at these things a year at a time because we can get our hands around it, but quarter to quarter there are going to be changes, so we feel comfortable.

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

And recognize that on a short-term basis, we have a mix of various things that run through our shop and we meet constantly trying to optimize that mix. And if we get good workflow, we certainly have enough work that we can try to get a little bit better in certain periods and in doing that, we further absorb our cost, further reduced the cost on our contracts, which is really what we are really trying to accomplish to the maximum extent practical. And so it's a very real-time thing that occurs, but being able to take advantage of those opportunities sometimes is difficult to really see until you've actually done it. So that's how we operationally focus on the business and that leads to some of the upside that we've seen in quarters and things like that along the way, is the opportunity to take advantage of those optimizations as we proceed in the future.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay. Understood. You just kind of crushed my revenue projection, so I just wanted to get a little more color there. That's very helpful. Just a couple more. On the Ohio Replacement reactor sales, are you guys already doing R&D work on that right now and I know production at GD doesn't start,



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

I think, until 2021 or so. So is Ohio Replacement steady-state for you for a while, or will LRIP type stuff start to ramp up the volumes in 2017, 2018? I'm just wondering how to think about the ramp on the Ohio reactor for you.

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

Yes, the components for the Ohio-class Replacement submarines, some work has already started in our Barberton shop, particularly on the steam generator side, so that's moving along nicely through the shop. Elsewhere it has not started yet. We have supported our customer in both design and development phases for the reactor compartment components and that's all worked well, so we will see that pick up probably in the late 2017, 2018 timeframe.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay, got it. And this one for David on cash taxes. Cash taxes the first half this year, it was down quite a bit from the first half of 2015. I think if you annualized it, you are running around \$65 million or so. Is that the right level to think about for the full-year 2016, or is it closer to the \$115 million in 2015?

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

Once again, I think just because of the different spinoff last year versus this year, once again we are anticipating to be more or less a cash taxpayer because we don't have a lot of foreign business where we have lower tax, so we are saying 34% to 36%. So we are anticipating other than those items that could affect that being the litigation and other things that could change if we are taking out of it for a non-GAAP number, we anticipate still being the 34% to 36%.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay. Thanks very much, guys.

Operator

Ladies and gentlemen, that now concludes today's question-and-answer session. I'd like to turn the call back over to Alan Nethery for closing remarks.

Alan Nethery - *BWX Technologies, Inc. - VP, IR & 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 will be available for a limited time. If you have further questions, please call me at 980-365-4300. Thanks.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect at this time. Everyone, have a great day.



AUGUST 09, 2016 / 12:30PM, BWXT - Q2 2016 BWX Technologies Inc Earnings Call

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