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BWXT - Q1 2017 BWX Technologies Inc Earnings Call

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

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to BWX Technology, Inc.'s First Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the call over to our host, Mr. Alan Nethery, BWXT's Vice President of Investor Relations and Corporate Procurement. Please go ahead.

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

Thank you, Keith, and good morning, everyone. We appreciate your joining us to discuss our 2017 first quarter results, which we reported yesterday afternoon. A copy of our press release is available in 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 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 Investors section of our website. BWXT believes that 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 in understanding BWXT's ongoing operations. And with that, I will now turn the call over to John.

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

Thank you, Alan, and good morning, everyone. 2017 is off to a very good start, and we continue to exhibit strong overall operational performance this quarter. Since the spinoff of our former power generation business in the second quarter of 2015, we have increased our trailing 12 months GAAP EPS from $0.11 per share to $1.84 per share and by more than 40% on an adjusted basis, from $1.31 to $1.85, delivering a 21% compounded annual growth rate. Our disciplined approach towards executing our long-term strategy drives stability, profitability and growth that will continue to shape our future performance.

For the first quarter 2017, the company achieved 17% consolidated revenue growth compared to the first quarter of 2016. Consolidated operating income in the quarter was $83.2 million, much higher than our prior year period of $42.6 million on a GAAP basis and a 14.6% increase compared to the prior year period non-GAAP operating income of $72.6 million. Compared to Q1 last year, GAAP EPS and adjusted EPS grew by 17% and 22%, respectively. Backlog continues to be strong, totaling $3.9 billion at the end of the quarter. This strong financial performance is the result of our disciplined operational execution and management of our costs. Despite an excellent 2016, which exceeded our internal forecast and produced an adjusted EPS growth of nearly 24% from 2015, I'll remind you that we approach 2017 with an ambitious plan. Though the outstanding first quarter results caused us to debate raising our 2017 guidance, we believe that our full year guidance remains appropriate as our experience of quarterly fluctuations year-over-year dictates caution.

There are a number of growth areas that I'm very excited about. The first of which is our naval nuclear propulsion business. Our relationship with the customer has been built over decades, and we continue to see this business as the core strength of our company. As the additional build rate becomes more definitive and we receive adequate assurances, we're prepared to accelerate our rate of capital investment and be ready for the submarine production growth that is anticipated. Additionally, we are in the early stages of planning a possible quicker cadence on aircraft carrier production. As we evaluate the multiple procurement scenarios that are possible, we see the potential for significant growth beyond our current levels of volume and in excess of our planning that led to our multi-year guidance of low double-digit EPS growth. That being said, we have to understand procurement plans to definitize capital spending for our plants by year-end to be able to expand our capacity. The actual procurement scenarios would be more of an evolution over a few years, defining long lead materials and build rates.

As announced last week, we booked a $76 million contract for CMC missile tubes in the first quarter of 2017. CMC missile tubes will be used on both the U.S. Columbia Class and the U.K. Dreadnought Class submarines. This Block II award is the third CMC contract that we booked. We continue to execute well in production of the Block I CMC missile tubes and have been awarded approximately half of the available CMC tube assembly work to date. In the Canadian commercial market, we will continue to grow through our newly aligned NPG segment. The Q1 results from this segment were our best first quarter in recent history and the performance at BWXT Nuclear Energy Canada, or BWXT NEC, as we call it, has exceeded our expectations so far. Accordingly, we continue to evaluate that market for organic and acquired growth opportunities. Rex will elaborate on these items and other strategic initiatives that we're working on in the later part of this call. Before he does that, let me turn the call over to David, who will discuss our new segment reporting structure, first quarter results and other financial matters. David?

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

Thanks, John. Beginning this quarter, we are reporting our results in 3 realigned business segments. The Nuclear Operations Group, referred to as NOG, is unchanged from prior reporting periods. The Nuclear Services Group, referred to as NSG, comprises our previously technical services segment and portions of our Nuclear Energy business, which includes our U.S. nuclear business, service business and our portfolio of work in advanced reactors for both terrestrial and space power applications. Finally, the Nuclear Power Group, referred to as NPG, includes our legacy BWXT Canadian nuclear business and our recently acquired BWXT NEC. In yesterday's evening's earnings release, we provided new segment historical results for the full year 2015 and for all 4 quarters of 2016 in the segment tables.

NOG's record first quarter 2017 revenues grew 10% to $325 million compared to $295 million in the first quarter of 2016. Revenues for the segment came in higher than first quarter 2016 results, due to timing and increased component manufacturing activity as well as our naval nuclear fuel and downblending operations. Operating income was a first quarter record of $73 million, 12.8% higher than the $65 million in the first quarter of 2016. NOG delivered a strong operating income margin of over 22% during the quarter. Additionally, we booked $245 million of work for NOG this quarter, including the $141.7 million award for Nuclear Fuel Services that we announced last week. This segment's backlog at the end of March was $3.4 billion, an increase of $1.3 billion from a year ago.

For the first quarter of 2017, NPG more than doubled revenue over the prior year period, reaching $78 million compared to $36 million in the first quarter of 2016. Revenue growth in this segment was primarily due to the acquisition of BWXT NEC. Operating income in this segment was $13.8 million, roughly doubling the $7 million for the corresponding period of 2016. This increase was driven by the net impact of the acquisition as well as increased income from BWXT Canada. Despite the higher run rate, the segment continues to build backlog, booking $82.7 million in the first quarter and ending the quarter with a backlog of $478 million, 50% higher than the $319 million of backlog a year ago.

Our NSG segment contributed operating income of $662,000 in the first quarter. Operating income for this segment was lower in the first quarter compared to the prior year period, because the segment transitioned off an Idaho joint venture project in May 2016 and experienced lower Q1 outage work as compared to the prior year quarter as anticipated due to year-over-year outage timing differences.

The company's capital expenditures were $13.7 million in the first quarter, $3.6 million higher than the prior year quarter. Depreciation and amortization totaled $14 million for the first quarter, up to $2.1 million due largely to the acquisition. The GAAP effective tax rate was 30.6% in the first quarter, better than our full year guidance due to tax benefits recognized and equity award vestings in the quarter. As of March 31, 2017, the company's cash and short-term investments position net of restricted cash was $108.3 million. First quarter cash flow from operating activities was a usage of approximately $54.8 million compared to a usage of $12.8 million in the prior year period. This is inclusive of a $30 million settlement payment to Bechtel in the first quarter of 2017 related to the mPower Framework Agreement, which we recognized in 2016. As of March 31, 2017, we had $525.9 million borrowing in term loans, including those made available under the September 2016 amendment, $50 million in borrowings under the revolving line of credit and letters of credit totaling $125.1 million. As a result, the company had $224.9 million of remaining availability under our credit facility, excluding the additional $250 million accordion provision. On April 28, 2017, our board declared a cash dividend of $0.11 per common share payable in the second quarter of 2017, a 22% increase over the prior quarterly dividend level. Beginning in 2018, we will adopt the updated pension guidance of the FASB issued in March of 2017. These income statement classification changes will not impact our EPS or net income, but will alter operating income and margins at the consolidated and segment levels, reducing what we report as operating margin in NOG by 150 to 200 basis points. We provided a few more details in yesterday's 10-Q filing. Now I'll hand the call to Rex for a discussion of the segment operations and the outlook for the remainder of 2017. Rex?

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

Thank you, David, and good morning. John and David have already discussed our accomplishments to start the new year, and I now will provide some additional operating details from the first quarter. First, as we discussed, we had impressive revenue and operating margins in the first quarter. These improvements are due principally to strong results in our Nuclear Operations and Nuclear Power Groups. We're beginning to see a positive manifestation of our growth strategy in Canada, organically and in the acquired business. As anticipated, we are realizing very good cost synergies from the acquisition of the BWXT NEC business, and we expect to see significant revenue synergies in the future. This is underscored by NPG segment operating margins, inclusive of amortization of intangibles of nearly 18% in the first quarter.

Nuclear Operations delivered strong operating margins of over 22%. Upon adoption of the pension accounting change in 2018 that David mentioned earlier, we anticipate that we will continue to have 200 to 300 basis points of pension benefit for several years in that segment. NOG also realized a revenue increase of about 10% as compared to the first quarter of 2016, which was our lowest revenue quarter last year. We continue to perform well on our missile tube contracts and as we announced last week, we were awarded a $76 million Block II contract in the first quarter to build additional Common Missile Compartment or CMC missile tube assemblies. The CMC missile tubes, which weigh over 50 tons each, will be used on both the U.S. Columbia Class and U.K. Dreadnought Class strategic nuclear submarines. To date, BWXT has been awarded approximately half of the available missile tube work, and we continue to project a market share of 60% as we move toward full rate production. We are investing in manufacturing facilities to support this additional work, including a dedicated production facility at our Mount Vernon, Indiana site.

We continue to rationalize and realign our Nuclear Services Group in order to improve its performance and address that market more competitively. U.S. nuclear service volume was softer in Q1, mainly due to seasonality and cyclicality. However, we still expect overall outage volume for 2017 to be at least as strong as it was in 2016. Timing delays in advanced reactor programs contributed to depressed performance in the NSG business in the first quarter. Furthermore, Department of Energy management and operations contract awards have been delayed, likely due to the presidential transition. However, we remain confident of our ability to gain share in this market based upon our history and unique value proposition in all aspects of nuclear operations and nuclear environmental management.

We booked approximately $365 million of new orders in the first quarter of 2017, of which $245 million came from NOG. As mentioned earlier, we ended the quarter with a near record level consolidated backlog of over $3.9 billion, excluding unawarded but negotiated options of an additional $800 million.

We are reaffirming our previous guidance for 2017. We expect revenues to grow to the range of $1.6 billion to $1.7 billion and for adjusted earnings to be between $1.85 and $1.95 per share, including the amortization impact of the BWXT NEC acquisition and excluding any mark-to-market adjustments for pension and postretirement benefits. We continue to anticipate our earnings per share of compounded annual growth rate to be in the low double digits for the 3- to 5-year period following 2017. This longer range forecast includes anticipated growth in the missile tubes, adding the larger size Columbia Class production and Virginia-class production remaining at 2 submarines per year. Any acceleration of the pace of carrier production above the current rate of 1 vessel every 5 years or more than 2 Virginia-class submarines per year is not included in our strategic forecast or in our CapEx guidance. However, as John mentioned earlier, we have begun planning for the possibility of accelerating the pace of aircraft carrier production and this can be viewed as upside, should it occur. Moving forward, we will emphasize 5 key dimensions of our growth: first, growth in our Navy nuclear propulsion business based upon higher customer demand; growth in the Canadian commercial nuclear market through our NPG segment with abundant opportunities in reactor servicing and refurbishment; increasing profitability of the NSG business as we regain market share; R&D-driven organic growth; and selective acquired growth. We see significant opportunities in each of these areas, and we'll provide additional details at the appropriate time. We remain committed to a balanced capital allocation approach with a focus on investments and operational improvements that will smartly grow our business.

We are confident in our numerous organic growth prospects, and we will continue to invest capital to support these opportunities. We are also actively working on our M&A pipeline and see multiple opportunities that may be actionable. To make sure we are maximizing value for our shareholders, returns on these growth-focused investments will continue to be evaluated against share repurchases and other capital investment options. We have $193 million remaining in share repurchase authorization in order to maintain optionality and support opportunistic share repurchases over the next 3 years.

To conclude, we had a strong first quarter due both to operational performance and the impact of some project timing. We remain committed to our previous full year guidance and optimistic about the strategic opportunities developing. Looking beyond 2017, our strategic plan will guide us toward additional growth opportunities that fit our strengths and increased options to participate in the markets we are currently serving and potential adjacent markets. We remain very well positioned to serve our customers and address market needs, and we are prepared to face the growth challenges that lie before us. That concludes our prepared remarks. I will now turn the call back over to the operator, who will assist us in taking your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And the first question comes from Pete Skibitski with Drexel Hamilton.

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

I guess I'll start out just -- I want to make sure I understand this $30 million cash payment to Bechtel. Does that fully end -- did you say, I think you mentioned it David, does that fully end the mPower agreement? Or is that just part of kind of the change over to the lower kind of R&D framework going forward?

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

Okay, remember that we did create the framework agreement last year and took the financial hit for it. And this $30 million payment now completes that framework agreement with Bechtel. The IP is now ours. We go forward with that IP, so it's done.

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

Okay, okay. And the R&D profile will remain the way it's been the last few quarters?

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

Yes, so Pete, this is Rex. We'll be winding down the mPower program in an orderly fashion. We do have an R&D program funded at a low level continuing into the future.

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

I see, I see. Okay, that's helpful. And then I guess I'll ask you, there has been a lot of color out there on aircraft carrier acceleration and Virginia work and stuff like that. There is also a lot of articles out there in terms of the need to repair the fleet, the naval fleet and increases in O&M budgets and that sort of stuff. I just wonder if you guys can clarify for us your exposure to the O&M budget. I imagine it's a minority of your work, but to what extent do you -- do the things that you do to the U.S. Navy require repair work, spare parts-type work? I don't know if you have any exposure to aircraft carrier reco-type work. Could you just give us some color on that?

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

Yes, so Peter, yes, our exposure to the O&M budget is pretty limited. We're generally delivering new components, cores, pressurizers, steam generators and such. So we don't generally do much sustaining engineering or parts replacement for the operating fleet.

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

Okay, okay. I'll -- I'll ask just one more, and I'll get to the -- back to the queue. One thing I'm trying to figure out is the extent to which you're going to have R&D work on the Columbia Class versus production work. And then I'm just trying to figure out the timing of each, maybe how, if you do have R&D, how long that would last. And then on the production work, when that may start, when that might end. I know GD sort of is scheduled to begin production, I think around 2020, 2021. I don't know if you have to have your production work done by them or half done by then? Could you just give us a little more fidelity in terms of the timing of your work on the Columbia?

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

Sure, Pete. So if you look at the shipbuilding schedule, which shows that first Columbia holding ordered in 2021. As we often say, you need to think of that as advancing 2 years in terms of the long lead cores and components that we provide. So the clock starts for us about 2 years prior to that, which means we would be in development production -- sorry, we'd be in production in 2019. We have been funded for Columbia production developmental work over the past couple of years at a low level. So we're preparing for production right now, but will go fully into production in '19.

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

Okay, okay. And then would you finish up by 2021? Or would you go to maybe a year or 2 before GD -- I think GD finishes (inaudible) or so?

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

Yes. No, that production work for a particular ship set goes on for many years and then the other work in the future layers up on top of that. So think of it as being multiple years once the order is given, and we'll deliver several years after that.

**Operator**

And the next question comes from Tate Sullivan with Sidoti.

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**Tate H. Sullivan** - *Sidoti & Company, LLC - Research Analyst*

A couple from me. Just can you point to -- I mean, we've all read the increased cadence of aircraft carriers and more submarines. But I've always discounted the comments about building more aircraft carriers, but what -- between your last earnings call and this earnings call, what I think it's incremental, your discussion about aircraft carrier, a higher cadence. So what did you see to start talking about it more this quarter?

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

Well, we've -- this is John. We've continued to get information from -- [mandated] from Congress with the need to increase the cadence of aircraft carriers. I -- there is a concern that has been existing. It's been a bipartisan concern going back to the Obama administration about submarines. And I think world events as they exist have continued to drive the thought into aircraft carriers as well. I think there is a general feeling that we're a little bit undershipped right now in many of these areas. And I believe that there's got to be some increases on the horizon beyond some of the things that we're currently assuming in our forecast. That being said, we've got to get -- Congress needs to get itself together. They have to figure out what they're going to fund and how they're going to fund it. But I think there is broad-based general support to do more. We're just going to have to see what that turns into. And aircraft carriers are firmly in that conversation right now.

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**Tate H. Sullivan** - *Sidoti & Company, LLC - Research Analyst*

Okay. You listed -- and separate one is that you listed your 5 areas of growth. And if you compare -- I mean, what's more meaningful to you or do you look at it relative, I mean, the missile tube growth opportunity versus the commercial nuclear work you can do out of Canada?

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

Yes, so I mean, yes, it's -- we've got tailwinds in just about every market we're participating in, Tate. Naval reactors work that we do, obviously lots of momentum there. We really like where we're positioned in Canada. We are well positioned on missile tubes. I'm repeating a little bit, but our organic R&D opportunities are going to become interesting. So we're happy to be participating in all those robust markets right now.

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**Operator**

And the last question comes from Robert Labick with CJS.

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**Unidentified Analyst**

It's [Pete Lucas] for Bob. Just a question, when you guys gave guidance in February, you expected NOG guidance to be flat. Looking at the 10-Q, it appears an increase in 2017 revenue there. Just wondering if that was related to anything specific that you could talk on?

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

Our NOG business, we more or less -- there is some growth in there. The revenue is because of the savings we get in the contracts. There's adjustments. How that goes into the revenues and as we get savings, the revenues are debooked, or bookings are debooked and we get less revenue. So on a ongoing basis, there's not a lot of growth even though there's some savings built in, and we'll continue to say at this point in time that of the $1.6 billion to $1.7 billion that we're projecting, that NOG's portion of that will be reasonable as to what it's been in the past. Even though timely on the quarters, there could be some variation to make you think that it's climbing.

**Unidentified Analyst**

Helpful. And last one from me. In terms of the missile tubes, given your most recent award, how long does it take for this work to run? And about when would you expect to hear about the next awards, in terms of timing?

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

Sure. So, yes, we build these missile tubes over a period of 2 to 3 years. And what we expect to see happen in the future, Pete, is to see the customer go to 100, probably on the order of 100 tube block buys in 3 separate blocks. And we'll start to see some request for information on that this year. We are seeing it in fact, and we anticipate a contract award sometime in 2018 for that first block of 100, of about 100 missile tubes.

**Operator**

And the next question comes from Nicholas Chen with Alembic.

**Nicholas Chen** - -

It seems like the Nuclear Energy Canada acquisition's off to a solid start. I was hoping you could just provide some additional details around the integration of that business and whether there has been any surprises to the upside versus downside from your initial expectations?

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

Yes, so far the integration is going very smoothly. We've got a fully integrated organization. And we -- our strategy on that business was, obviously, to go after the cost synergies that we could get straightaway. And so that's what we've been focused on in this first year, and we're starting to see some of the benefits of that right now. So cost synergies are going well. There are strategic synergies around that business. Frankly, we wouldn't have acquired that business if there weren't significant strategic synergies or revenue synergies, and those are related to the refurbishment activities that are going on at both the Bruce Power site and at the Ontario Power Generation, Darlington site. So with the acquisition of that business, we have opportunities to do work in detube and retube feeder tube replacements and things like that, that might have been less available to us before. And so that's where we see some of the future year growth, but as of right now the business is operating very well. We're taking cost synergies. It's fully integrated from an organizational perspective, and I think, frankly, exceeding our expectations a bit up to this point.

**Nicholas Chen** - -

Okay, great. And then just finally, it seems like every quarter we're seeing more NASA work in the press releases. Can you just give us an idea of what type of work you're doing there? And the sort of opportunity you think that might extend into over the next several years?

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

Sure, so we're exposed to NASA in 2 parts of our portfolio. One is in our Nuclear Services Group. We have a management and operations contract with NASA that's called SACOM. And basically, that's to run the sites that NASA has, the rocket engine testing facility in Stennis, Mississippi and also the large manufacturing facility in Michoud, Louisiana. So that's kind of like our Department of Energy management and operations contracts where we do all kinds of things on behalf of the client there, running their site. And that's a -- those are both pretty interesting and pretty exciting sites with some growth in them. That's not a big income driver for us, but it's strategically kind of interesting. The other part of it is, is NASA is working now on its architectural options for a manned mission to Mars, which would occur sometime, in the current timetables, late in the 2030s. But of course, the systems development actually will begin sometime in the early '20s. And so NASA is going through these trade studies right now to look at what kind of propulsion architecture, what kind of vehicles to build, and so forth. And one of the options is to power the spacecraft with

-- the in-space propulsion system with nuclear thermal propulsion it's called, and there are other options available too. And so NASA is looking pretty hard at that. It's a very efficient form of propulsion, very high energy density and very many advantages in terms of how quickly you could get to Mars and back. So we're right in the middle of doing the nuclear thermal propulsion work with NASA. We're doing field design and core design. It's not a significant part of our portfolio at this time, but we could see it growing into a significant program for us should it continue with its current momentum. I will mention that the omnibus appropriation bill that just got passed has $35 million for NTP, Nuclear Thermal Propulsion. We should see a fair chunk of that funding as it dribbles down through the system. The President's request was $7 million, by the way. So that's quite a number. So that's a pretty encouraging sign for us and maybe the start of a substantial program.

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**Operator**

And the next question comes from Ron Epstein with Bank of America Merrill Lynch.

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

It's Kristine Liwag calling in for Ron. For the CMC missile tube business, I was wondering can you provide a little bit more color on the differences between the Columbia Class program and the U.K. Dreadnought Class program? Is there a difference in the procurement process, and also the competitive environment?

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

So, yes, this is Rex. So I'll comment on that. We're selling to a single client. The government is procuring that stuff through GD Electric Boat, so you can kind of look at their press releases to see what happens in that market. But we don't -- that interface is not visible to us because, obviously, the Dreadnought stuff is going through a foreign military sales mechanism. So it's -- from our perspective, that's kind of a generic -- that's a generic set of customers. We build the missile tubes and they get delivered.

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

And I guess, to clarify for that, would Babcock also be able to bid for the Columbia Class?

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

Yes.

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

Great. And on the $142 million contract you received last week, is that fully reflected into your 2017 outlook? And also, for you to raise your full year '17 outlook, are there specific contracts that we should watch?

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

So the $142 million contract was funding for a contract that had been negotiated in the prior year. So we anticipated that it fits our growth profile and fits squarely into the guidance that we provided at the beginning of the year and just reiterated.

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

And the second part of the question, on the full year outlook?

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

There really are -- we're really not opportunity-driven in our forecast right now. The majority of the work that drives our forecast is in backlog at this particular point in time. Certainly, we have some things that we're looking forward to and that will factor into with our operational performance, how we see guidance evolving during the year. But right now, I would say that we're not opportunity-driven in our guidance at this point.

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**Operator**

And the next question comes from Michael Ciarmoli with SunTrust.

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

Just to -- on this -- on the Nuclear Services unit. Correct me if I'm wrong, I think when you acquired the GE-Hitachi it might have been a $90 million run rate, per the 10-Q, it looks like you got $26.6 million. Is it performing better than expected? I mean, I know you were talking about the cost synergies, but revenue run rate seems to be up. Are you -- just if you can comment on sort of the business as a whole, how it's performing on the revenue side.

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

Yes, so I think, there weren't any real surprises on the revenue side. The -- that business has got some steady revenues related to the fuel deliveries that we do. About half of that business is fuel and about half of that business is fuel deliveries for the robotic systems and fuel channel diagnostic robotic systems. And so there is some nice recurring revenue streams in that business. It's fairly predictable and that's one of the reasons that we like it. So I don't think we had any surprises in Q1 on the revenue side. Now on the bottom line, as I said earlier, I think that business is performing a bit better than we expected. Our cost synergies have been -- we've been realizing very good cost synergies, and so that -- it looks good from that perspective.

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

Yes. And that's a good segue into the next question. I think, you put up a 17.8% margin. It sounds like with the amortization, they were probably up over 20%, but I think you're still guiding to 10% margins. I mean, how should we think about the margin profile on that business going forward? It would seem like if you're getting the cost synergies and the predictability of this business, there'd be some room for some maybe meaningful upside in margins there?

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

I mean, I think as we look at margins, we were -- as we looked at the acquisition preacquisition, we were talking about the fact that we are always aware of the amortization of the intangibles. So I think, we're showing that the business has been a great acquisition. We're doing well with the synergies in the business, coming out with the beginning of the year guidance saying, we're including all of that inside of what we're now saying, are 10% margins. Obviously, the business, as we continue to refine it and continue to transition over time, we know there's opportunities in there, but that's part of our outlook for the future as we go forward. So we hope we can increase those.

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

Got it. But I mean, would there be, as we move into the sequential quarter, I mean it sounds like you're forecasting the business based on backlog. I mean, we -- is there any lower margin work that you see in the remaining quarters? Or any different mix profile that would skew the margin from where it was in the first quarter?

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

Just like the old BWXT Canada, there is mix and the mix has different margins. There's outages up there, just as we have inside of any -- the NSG work here. So that could vary during the year. So yes, and the margin mix could be different.

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

Recognize where we are. We're at quarter end and can we continue to do more with this business? We believe so. That's why we bought it. Would we include that in the guidance at this particular point in time? I don't think so. So just recognize that we're still at an early stage on this and continuing to develop our long-term thinking relative to what we'll do with the business. Obviously, we think we can do [more with this], nevertheless.

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

Yes. No, that's totally fair. And then just last one, and I'll get out of the way here. I think I heard 2 numbers on the pension accounting, that the operating margin would have been down 150 to 200 basis points once you adopt the new guidance. Was that for 2018? And then I also heard 200 to 300 basis points of pension benefit going forward, just if you can kind of clarify that.

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

So we got out of the pension business more or less in 2015 at the end. So last year, because the service cost went down, we were out and able to recognize operating income for pension. Now the government has said that we're going to take the elements of the return on the assets and the liability, the interest expense, and we're going to take that out of operating margin and we're going to put that into other. So the 150 to 200 basis points is the -- more or less that income coming out, the pension income coming out and it's going to not change our EPS or net income, but it's going to come out causing the operating margins to go down in NOG. But then we said, what's still remaining inside of NOG is the 200 to 300 basis points of FAS/CAS differential, is the other pension benefit that we're still carrying. And that's coming from the fact that we have been overfunding the pension plan early on. We're not funding it over now. We're just doing [aggressive] funding, but we were funding it over. So this is the catch-up of the government that's adding to those margins on this side of NOG. That will continue to happen for the 200 and 300 basis points for the next few years.

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**Operator**

And the next question is a follow-up from Tate Sullivan with Sidoti.

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**Tate H. Sullivan** - *Sidoti & Company, LLC - Research Analyst*

And another follow-up on Nuclear Power Group. I mean, I could see in your Q acquisition-related revenue is $26.6 million. So even backing that out, you had good year-over-year growth in your Nuclear Power business. Was there any -- I remember, maybe it was 2 years ago or last year you talked about a China boiler project. Was there any large project within the income this quarter?

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

No, I don't think there was any specific project. It's just -- I think there's synergies, it's somewhat higher, because you've taken now the acquisition, you've put it in BWXT Canada and that's somehow somewhat hard to take and separate the 2 out again, because of the synergies and how you're recording things. So I think it's just overall improvement in BWXT Canada, along with the acquisition doing great.

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**Tate H. Sullivan** - *Sidoti & Company, LLC - Research Analyst*

Okay. And then the last one for me. I think you said earlier that the Mount Vernon facility will be now a dedicated facility to missile tubes. Is that correct? And what changed from what it was doing before?

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

No, no, that's not correct. The Mount Vernon facility makes -- the historical purpose was to make large components for our naval reactors program and it certainly will continue to do that. What we have done is, we were making missile tubes in part of that facility, and we are completely refurbishing a separate building on that site, which will be dedicated to missile tube production. So the traditional work continues and missile tubes get added.

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**Operator**

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

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**M. 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 will be available for a limited time. If you have further questions, please call me at (980) 365-4300. Thank you.

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**Operator**

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

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