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BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to BWX Technologies Inc. Second Quarter Earnings Conference Call and Webcast. (Operator Instructions) I'd now like to turn the conference over to our host, Mr. Alan Nethery, BWXT's Vice President and Chief Investor Relations Officer. Please go ahead, sir.

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

Thank you, Cole, and good morning, everyone. We appreciate your joining us to discuss our 2018 second quarter results, which were reported Monday afternoon. We will also be discussing the closure of the acquisition of Sotera Health's Nordion medical isotope business, which we also announced yesterday. Copies of our press releases and investor briefing, including details related to today's call, are available on the Investors section of our website at bwxt.com and may be beneficial for you to refer to during this call. Joining me this morning are 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 the Monday'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'll also provide non-GAAP financial measures, such as adjusted earnings per share, which are reconciled to GAAP in Monday's earnings release and our investor briefing presentation. BWXT believes that non-GAAP measures provide greater insight and transparency into the company's operational performance, and that these measures help to facilitate comparisons of operating results with prior periods and assist in understanding BWXT's ongoing operations.

With that, I will now turn the call over to Rex.

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

Thank you, Alan, and good morning, everyone. Yesterday, we reported solid second quarter results with non-GAAP earnings per share of \$0.58 on revenue growth of 7% and exceptionally strong bookings in the Nuclear Power Group. Our performance continues to build on the momentum



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

from the first quarter, resulting in a year-over-year revenue increase of 7% and earnings per share increase of 13% for the first half of the year, inclusive of tax benefits.

We continued to exhibit our capacity for growth, while maintaining best-in-class margins and superior competitive positioning. And despite facing headwinds in the second half, we are maintaining earnings guidance.

Our improving operating performance will be offset by an expected increase in interest expense, resulting from our capital restructuring actions and integration costs associated with the early close of Nordion.

Before I turn the call over to David to discuss more financial detail, let me provide you with some highlights from the quarter and a little more color on the business.

We continued to see strong demand from the U.S. Navy as reflected by revenue increases in Nuclear Operations in the second quarter and first half. We anticipate an incremental pickup in the second half, driven somewhat by design and development activity on the lead ship for the Columbia Class submarine and by some uplift and downblending.

In the second quarter, we announced the appointment of Joel Duling as President of Nuclear Operations Group. Joel brings to the business proven leadership ability, familiarity with the business and exceptional operating credentials. Joel is taking the helm as this segment enters an inflection point in growth and the beginning of a multiyear transition as we established the Columbia submarine production line.

We are also encouraged by signals for incremental growth beyond Columbia in the future. We continue to respond to customer requests in growth scenario planning that includes the likelihood of additional Virginia propulsion equipment in years that Columbia is not procured as well as a 2-carrier or accelerated carrier procurement.

The National Defense Authorization Act Conference wrapped up in late July, and Congress has approved and sent the budget to the President for signature earlier in the cycle than any other budget in more than 40 years. The budget agreement includes the authorization support for the procurement of 3 Virginia Class submarines in 2022 and 2023. Provisions in the congressional appropriation bill set the stage for the administration to request and Congress to fund long-lead material for these additional subs in the FY 2020 budget. All of these incremental scenarios continue to represent upside to our current thinking and guidance.

And lastly, we continue to make progress with our customer on the negotiation of our next multiyear pricing agreement and still anticipate a completion in early 2019. The scope of this pricing agreement would meaningfully increase our manufacturing volume over the next few years as compared to the planned volume of the current pricing agreement.

I'm also pleased that our Canadian Nuclear Power business continues to outperform. Year-to-date revenues are up 43%, and I remind you, all organic. Year-to-date segment margins continue to perform better than originally anticipated.

On the last call, I mentioned the Bruce Power steam generator contract. We've received this contract in the second quarter, and I want to underscore that it was the largest contract in the history of this segment. So even with significant revenue growth, segment backlog is at record levels over CAD 1 billion.

In Nuclear Services, we've continued to see solid baseline wins as evidenced by a 5-year, \$5 billion extension to the Idaho National Laboratory management and operations contract. We also resubmitted our proposal for the Savannah River liquid waste contract and completed the transition on the Los Alamos Legacy Cleanup Contract, which we won in late 2017.

On the new technology front, we continued to make excellent progress on medical radioisotopes. Just last week, we closed the Nordion acquisition, about 5 months earlier than anticipated. We will be reporting this business under the Nuclear Power Group segment beginning in the third quarter.



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

And finally, as we pursue a variety of attractive growth opportunities, we have restructured our capital to create better short-term and long-term balance and to allow more flexibility. We expect to utilize that leverage to support the Nordion acquisition and a number of organic growth and other strategic opportunities.

Let me now turn the call over to David to discuss segment results, guidance and other financial matters before I close with some comments about medical radioisotopes.

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

Thanks, Rex. Nuclear Operations Group generated revenue of \$332 million for the second quarter of 2018, its highest amount in more than 3 years and a 6.2% increase from the second quarter of 2017. Year-over-year increase was driven by missile tubes and Naval nuclear fuel operations. Operating income for the quarter was \$67 million, down about 3% compared to the second quarter of 2017.

NOG delivered solid second quarter operating margins inclusive of CAS pension reimbursements of 20.2%. NOG backlog finished the second quarter, as expected, at approximately \$2.7 billion.

Nuclear Power Group revenues were \$76 million for the second quarter of 2018, a 39% increase from the second quarter of 2017, driven by increased service activity due to outages and higher refurbishment activity. Operating income was up 37% to \$7.8 million compared to the prior year period and was driven primarily by higher volume.

NPG backlog finished the second quarter a record \$883 million, over \$400 million more versus the prior year period. And as Rex mentioned, the backlog growth was driven by the CAD 642 million contract from Bruce Power for steam generators and drums.

In the second quarter, the Nuclear Services Group contributed operating income of \$3.5 million. The segment is showing surprising strength in the second quarter despite the delay of Savannah River Site liquid waste services contract. We still continue to expect a decision on that contract by the end of September of this year, and we remain optimistic about the pipeline of future bids.

The company's second quarter capital expenditures were up 9% to \$16 million compared with the second quarter of 2017. Depreciation and amortization totaled \$14 million for the second quarter, about flat compared with the prior year period. Halfway through the year, CapEx and D&A are on track with our guidance with capital expenditures more heavily weighted in the back half of the year.

At the end of the second quarter, the company's cash and short-term investments position, net of restricted cash, was \$319 million. Second quarter cash flow from operating activities generated \$36 million compared to \$119 million generated in the second quarter of '17. Lower year-over-year operating cash flow was driven by an increase in working capital at NOG and higher cash taxes.

As Rex mentioned, we believe our repositioned balance sheet allows us to support various growth opportunities, including the recent Nordion acquisition, which we utilize some of this new cash in the third quarter. And while some new fixed debt creates a near-term interest expense headwind, our anticipated increased operational performance mitigates this additional cost.

In May, we issued \$400 million in fixed debt, which we believe is a prudent and balanced move in light of a rising interest rate environment. We also secured a new credit facility and utilized the net proceeds to repay debt under the old credit facility.

At the end of the second quarter, the company had gross debt of \$691 million, including \$400 million in senior notes and \$291 million in term loans. We had no borrowings under the revolving line of credit and letters of credit totaling \$72 million. As a result, the company had \$428 million of remaining availability under our new credit facility.

Beyond funding growth initiatives, we continue to look for ways to best utilize cash, including opportunities to derisk our pension plan, particularly during a time when we can take advantage of onetime benefits and a transitional corporate tax rate environment. We continue to evaluate making discretionary contributions above the \$14 million statutory level required in 2018 and effectively annuitize parts of our pension.

AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

On August 3, our board declared a cash dividend of \$0.16 per common share, payable in the third quarter of 2018.

Turning now to guidance. As Rex mentioned, we are maintaining our 2018 non-GAAP EPS guidance in the range of \$2.45 to \$2.55 per diluted share, despite increased interest expense associated with the incremental debt and accelerated integration cost from the earlier closing of Nordion. The Nordion medical isotopes acquisition is currently contemplated in guidance and will be reported in the NPG segment beginning in the third quarter. We expect the acquired isotopes business to begin contributing revenue over the remaining 5 months of 2018; however, we do not anticipate the business will have a meaningful impact to revenue guidance and will not be dilutive in 2018.

We look forward to providing more financial detail about the acquisition during the next quarterly update. All other components of our 2018 and long-term EPS guidance remain unchanged, including capital expenditures, which we still expect to be approximately \$150 million for the year.

And with that, I hand the call back over to Rex for some closing remarks. Rex?

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

Thank you, David. We have made significant progress on our medical radioisotopes initiative. In the last 6 months, we have proven the technology at full scale. We have selected Ontario Power Generation as the radiation services provider for BWXT's technetium-99 product line. We have signed an agreement with Bruce Power to cooperate in the development and production of additional new radioisotopes. We have initiated research and development efforts for some entirely new radioisotope products and, as announced yesterday, closed the Nordion acquisition about 5 months earlier than we originally anticipated, further derisking the technetium-99 product industrialization base.

Radioisotopes represent a new and exciting business and another growth platform for BWXT. As we integrate Nordion and commercialize new technology to bring technetium-99 to the market, we believe radioisotopes are going to become an increasingly important part of our growth story. We are supremely confident in our technology and channels to market, and although aggressive, we still anticipate bringing the technetium-99 product line to market around the end of 2019. Including the recently approved Indium-111 oxine radioisotope, the Nordion business will be comprised of 6 active products. In addition, there are opportunities to add new and reactivated dormant isotopes to this product portfolio. In addition to the ongoing business, we see meaningful revenues coming out of our isotopes business over the next few years.

Nordion is a growing business today, and we expect it will be slightly accretive in 2019. Once some of our new products are online, we see our isotopes business contributing significantly to earnings per share growth over the long term. In the meantime, we've hit the ground running, integrating Nordion business. We intend to expand the product portfolio and to advance the commercialization of our breakthrough radioisotope manufacturing technology.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Bob Labick from CJS Securities.

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

On closing the acquisition ahead of schedule, so it sounds like -- you may not answer this, but I'm going to ask anyway. Could you give us a sense of the revenues and margins of the existing Nordion business? And then I guess, the price paid would be a great thing to understand as well. I know we'll eventually find out all of this. So if you can tell us now, it would be great or tell us when we might find that out?



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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

Yes, Bob, this one -- this acquisition is similar to the one that we did with GE-Hitachi in December of 2017, in that we're under agreement with the seller not to disclose certain details until we're required to do so through the normal SEC reporting process. So you'll start to see a lot more detail around that in Q3.

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

Got it. Okay. And you said it's essentially breakeven this year and slightly accretive next year, correct?

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

Yes, that's how we see it.

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

Okay, great. And then, can you give us just a sense, now that we've accelerated a little bit, for the time line and the steps needed now to enter the technetium generator market?

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

Yes. So the big steps are to industrialize the product line, the technician-99 product line. And the early acquisition -- earlier-than-planned acquisition basically derisks that industrialization phase. That involves putting hot chemistry processing equipment into hot cells, manufacturing and delivering generators and things like that. I actually believe that's the, kind of the low risk part of our schedule. It's not a simple thing to do, but it's something we understand well. And the technological risk is basically retired at this point. So that's kind of the fundamental aspect of getting it into the Nordion business. Apart from that, we have to go through the irradiation services part of it, which is to build the equipment to have this material irradiated at the reactors -- at the Darlington reactors at Ontario Power Generation. And so there's both an equipment design and then a regulatory approval phase with Canadian Nuclear Safety Commission for that part of it. So that's on the critical path. And then, we have to run product through the entire system from the irradiation part of it through the hot chemistry processing and through extraction of the product with our generators. And then that aspect of it has to be approved by the FDA. So I think, as I see it, the critical path items are the irradiation services and then also the approval of the drug by FDA. So that's how we see it playing out.

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

Great. That was very helpful. I appreciate that. And then, just one last one, and I'll jump back in queue. In NPG, obviously, you said you're performing, I think -- I think you said ahead of your expectations a little bit. Could you remind us why the lower margins in the back half implied in guidance to get 12%? And ex isotopes, going forward, is 12% still the right number long term? Or is there an opportunity to grow off of that 12% margin in -- again, in NPG ex isotopes?

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

Yes, I would say we're not prepared to anticipate what future margins would be in that business. But I think we're all around the table here, very optimistic about that business. It's growing nicely. It is producing good margins, and we expect, in the end, the radioisotope business will be highly accretive to that segment. In terms of second half of the year, I would say, we just are prepared to upgrade the guidance in that segment. I do think there is potential upside there. We like where that segment is running in terms of its revenues. So there is certainly some potential outperformance there, but we are planning to stick to the guidance at this point.



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

Operator

And our next question comes from Sam Pearlstein from Wells Fargo.

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

I wanted to follow up a little bit more on the radioisotopes. It certainly seems like your competitors have certainly been talking to a lot of investors, telling them that your timetable is very aggressive for that late '19. So can you help us just to understand, I guess, some of the milestones we should expect to see or we will see along the way for both the Canadian Nuclear and the FDA? And related to that, your competitors have tried to talk about supply agreements already with radiopharmacies, needing the cold kits. Can you just talk about why you're more optimistic than, I'd say, the way they're talking about it?

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

Okay. Well, certainly, the competitors will characterize our business differently than we would. I -- the reason we're optimistic about it, Sam, is because the technological risk is retired. We have produced this product at full scale, and it meets all the generic specifications for that drug. So we're optimistic about being able to get an accelerated approval with the FDA. We're certainly well along in the design of our irradiation services equipment, our robotic equipment. We are extremely mature in the hot chemistry processing and generator designs that we need to make. So we are hitting our milestones. As to what you might anticipate in terms of publicly announced milestones, certainly, the regulatory approvals from the CNSC for the irradiation services and then ultimately, obviously, FDA approval for that. So those are our big milestones. In terms of channels to market, we have a completely clear way about how we're doing that. We aren't disclosing it, of course, at this juncture, but we have very clear picture on that. And we have very clear path to significant revenues in this business over the next 3, 4 years.

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

And if I can just switch gears in terms of the missile tubes business, there has been some reports out of the Navy about welding issues with some of the missile tubes that you've manufactured. And I guess, is that the issue that you identify in the 10-Q within the rework issues? And just can you help us understand what that cost would? And secondly, does it factor into the next tube decision?

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

Yes, that's it, Sam. The discloser that's in the Q is exactly that issue. That's a problem that we self-identified to our clients, our customers at General Dynamics Electric Boat and then ultimately to the Navy. We are working very closely with those customers to try to resolve this problem. Weld quality is -- quality is a core value in our business, and this concerns some welded components. We don't -- we certainly don't see this as having a material impact on the business. We have self-suspended some welding operations in this area until we get the problem resolved. We have accrued for some additional anticipated costs, and those are reflected in our operating numbers in Q2. And they're also included in our guidance. So we're prepared to address that from a financial and operational aspect, and it's early in the game as to what we'll need to do there in terms of rework, but we are working daily with our client to get that worked out, and we'll hope to resolve it as soon as possible. In terms of how it might impact the future business, it's just too early to tell. Next significant awards in that business are in the Q1 of 2019, and so that's a bit down the road from here.

Operator

And our next question comes from Rob Spingarn from Crédit Suisse.



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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

How does that welding issue happen? In other words, how do you actually end up there given the track record you have?

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

Well, it's fundamentally an inspection technique issue. And we're working through that part of it now. The inspection -- there's a problem with the inspection technique, which meant that some welding indications were not caught in the inspection. So I don't view it as a welding quality issue, I view it as an inspection technique issue. And so because of that, we'll have to go back and reinspect and rework some of those welds.

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

So the work is generally okay. It's -- this is really paperwork, should I be thinking about it that way?

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

No. I wouldn't put it that way either. What I mean is that in the welding process, we normally inspect the welds periodically and make weld repairs, and the inspection technique didn't detect those welding issues. And so there are -- there is repair work that will have to be done.

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

Okay. And what's the financial implication of this?

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

Well, it's again too early to tell what that might be. But we certainly don't anticipate it to be material. And as I mentioned earlier, we have accrued for those additional anticipated costs and those are reflected in Q2 numbers and included in our guidance.

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

Okay. And then, this might have been touched on earlier, but to get to the full year NPG margin guide of 12%, you'd realistically have to be booking margins at around 7% over the next few quarters. But it doesn't look like you've ever been below 10%. So what would cause the further sequential decline there?

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

So we had, as you know, an extremely strong quarter in Q1. And so that sort of, let's call it, inflated the margins in that business in the first half. And so we're just sort of anticipating a return to normalcy in that business. I will say, as I said earlier, if we've got some upside in the business in the second half in addition to what we expect in Nuclear Operations, it would be in that business. It's moving quite strongly.

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

Okay. And then, the last thing. I just wanted to get back to Savannah River, you mentioned it earlier, and just understand, can you ramp quickly enough to support that \$20 million NSG profit guide?



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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

So the -- yes, so the -- we had built the Savannah River liquid waste business into our plan for this year, of course, because we didn't anticipate that protest. And the protest is pushing out the award -- the eventual award by give or take a year. So that's the headwind that's in the Nuclear Services Group business now. We're not changing the outlook there because we've got some, let's call it, some surprising streams in other aspects of that segment. We're doing very well, for example, in the advanced reactors area. We're doing very well on current contracts in terms of operational performance in the field. And so we've got some ways of making that up, and I think that's a pretty satisfying result of good management and some, let's call that, anticipated competitive strength.

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

Well, that's good. So if you do end up seeing a positive result with Savannah River, you've got some upside there?

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

I don't think there's much there because we'd have to go through the transition phase, which is, if it's awarded to us in the fall, and that's -- that phase doesn't carry profit with it. So where you see the lift is in 2019 and beyond. And it's a very big program. It will put some real lift into that segment, but we won't see much of it this year.

Operator

And our next question comes from Peter Arment from Baird.

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

Rex, first, I guess, a quick one on Nordion. The 150 employees that are joining or have joined you, how does the employment levels look with all the, kind of, once you get into production? Do you have to go through a bigger hiring phase to support your efforts?

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

I can't offer much detail on it yet, but the general answer is no. The -- one of the things that we really loved about that business was how much capacity it has. As you may know, if you've researched it, Nordion has been a much bigger business in the past when it had access to the Chalk River reactor and active product lines, including moly-99, among others. And so what you have there with that business is, it's a very beautiful business from the standpoint of industrial capacity and from the standpoint of workforce knowledge. These workers know how to produce the product, and there is a ton of capacity, many hot sales that are available for use, lots of space in both of those facilities in Kanata and Vancouver. And so that's really quite an attractive aspect of it, is that we can scale our production in that facility without having to, let me call it, overinvest.

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

Okay. And then just on capacity question, in general. I mean, given your commentary regarding some of the items that are, kind of, flagged in the fiscal '20 budget, how should we be thinking about just kind of still your long-term capacity requirements and the way to think about CapEx trends?

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

Yes, so all of the CapEx guidance that we've given you, including the \$150 million that we're doing this year, most of which is for the Naval reactors capacity build, all of that is built around our strategic -- long-term strategic plan, which anticipates that 2 Virginias per year, every year -- sorry, 2 Virginias every year regardless of whether there is a Columbia being ordered. So it's that new Navy shipbuilding plan, and also the Fords on their



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

current acquisition tempo. So that's what our capital buildout is related to, and there's very substantial volume increases related to all of that. What we haven't capitalized and built into our operating plans and our capital plans are the upside things, such as the additional Virginias in 2022 and 2023, which would hit our books in 2020 and 2021 because of long-lead nature of the equipment that we supply. And then, we also haven't anticipated, from a volume or capital perspective, this additional Fords, that the additional Ford volume that could come with either the 2 Ford buy, which puts a little bit of additional volume into our business, or these accelerated procurement schedules that they talk about, where you might alternate ordering the ship, the forward carriers on 3- and 4-year intervals, average 3.5. So the capital is built to that strategic baseline of 2 Virginias per year, but not all this upside stuff that the authorizer's having to build.

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

And we also haven't provided a new outlook on what we feel the -- after buying the Nordion business, what we will do with capital there in order to get medical radioisotope. So that will be also coming.

Operator

(Operator Instructions) And our next question comes from David Strauss from Barclays.

Unidentified Analyst

It's actually [Matt] on for David. I was wondering if you could touch on just sort of the mix of capital allocation. Obviously, you talked about M&A. But I guess, now that Nordion is behind us, is there a chance to move back to more buybacks? Or is M&A sort of more of the focus now?

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

I think as we've been talking about capital allocation, we have said at this point in time for share repurchases that we would be more opportunistic, except that we would be looking to get into the market to offset dilution. So I think, still with the acquisition, we just did through the M&A of Nordion. I feel that there's other things we'll continue to look at and so from a capital allocation standpoint, plus we talk about derisking the pension plan, taking advantage of the current tax environment around -- between now and September when you can get a larger tax deduction for payments into the pension plan. So I think we've got a lot of things we're looking at still to utilize that capital.

Unidentified Analyst

Got it. And then I guess, one more, I think the budget -- the new budget has support for a 2-carrier buy. Is there -- I guess, can you talk about the opportunity for you guys now that there is a chance to move revenue forward or maybe get more efficient? Or just sort of how you think about that?

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

Yes, sure, Matt. I'll take that one. So that one doesn't have a dramatic impact on our business because the first of those 2 Fords is already in the existing pricing agreement with our customer. And so with that 2 -- that sort of 2-carrier buy, what that does is that pulls that second one into the next pricing agreement. So it would impact the business from the standpoint of some long-lead materials and some things like that. So we'd see a little bit of lift to it, but that's limited.

Operator

And our next question comes from Michael Ciarmoli from SunTrust.

AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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

Maybe, Rex, just back to the medical isotope. So just to get a better understanding, does the actual process, your manufacturing process, needs FDA approval in addition to the drugs. Are we looking for in terms of milestones FDA approval on both the process and the actual drug? And would those time lines be materially different at all?

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

No. So Michael, the -- those are one and the same. So when you receive an FDA approval, you're receiving approval for the, let's call it, the product characteristics, but also the production characteristics. So those are combined together in the approval. And so there's no...

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

Got it. Okay. And then, Rex, you kind of talked about Nordion that you're probably going to be adding, I think, some new isotopes. I think you said, potentially they had 6 active products and you could bring new and dormant products online. Can you talk maybe about some of the costs or risks associated with bringing these new products online and maybe give some incremental color into what types of products they'd be or what they'd be targeted to?

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

Sure. We haven't certainly laid out any cost numbers for some of that externally. We have built up our own internal estimates. But I would tell you that the way I would want to put it is that the cost that we have incurred, for example, in the development of the moly-99, technetium-99 product line are actually pretty modest. The R&D costs and the scaling up of the product as we went through the developmental phases, the R&D part of it is actually a fairly modest investment. And we would expect fairly modest investments to bring, let's call it, dormant isotopes back to life in the Nordion portfolio because those are already approved and licensed in some cases. And so from the R&D aspect, not so terribly expensive. From a capital side, we have to spend some money, obviously, to standard these production lines and you've gotten a little bit of color on that in the past. In terms of what we would target, of course, we put moly-99 technetium at the centerpiece of our isotope business because that's the most important and the highest revenue-producing isotope in the world right now. But where that market is going is that the therapeutic side of isotopes are really the most interesting growth scenario. And we expect to be investigating and investing in therapeutic isotopes in the future in addition to the imaging isotope that we're focused on now.

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

Got it. That's helpful. And then just last one for me. Shifting gears, on the Nuclear Power, I think you still have a fairly wide revenue range there, \$300 million to \$350 million. I thought you said in the beginning of the year, you'd wait for some bookings, some potential clarity. What sort of -- what are you looking for in that end market, either from the bookings front or different trends to sort of narrow that guidance or bring us to the high end or the low end by the end of the year here?

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

Yes, I think we'll end up in the top of that range. As I said earlier, that business is really performing, and we're optimistic about what it can do.

Operator

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



AUGUST 07, 2018 / 1:00PM, BWXT - Q2 2018 BWX Technologies Inc Earnings Call

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

Thank you, Cole, and thank you for joining us this morning. That concludes our conference call. 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.

Operator

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

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