

NYSE:BW Q3 2025 Earnings Call Transcript

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Victoria | Conference Call Operator:

Good afternoon. Thank you for attending the Babcock and Wilcox Enterprises Third Quarter 2025 Conference Call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. I would now like to turn the conference over to our host, Sharon Brooks, BNW's Director of Communications. Thank you. You may proceed, Ms. Brooks. Thank you, Victoria.

Sharon Brooks | Director of Communications:

And thanks to everyone for joining us on Babcock and Wilcox Enterprises Third Quarter 2025 Earnings Conference Call. Joining the call today are Kenny Young, B&W's Chairman and Chief Executive Officer, and Cameron Freymeier, Chief Financial Officer, to discuss our third quarter results. During this call, certain statements we make will be forward-looking. These statements are subject to risks and uncertainties, including those set forth in our Safe Harbor provision for forward-looking statements that can be found at the end of our earnings press release and also in our Form 10-Q that was filed this afternoon and our Form 10-K that is on file with the SEC, and provide further detail about the risks related to our business. Additionally, except as required by law, we undertake no obligation to update any forward-looking statement. We also provide non-GAAP information regarding certain of our historical and targeted results to supplement the results provided in accordance with GAAP. This information should not be considered superior to or as a substitute for the comparable gap measures. A reconciliation of historical non-gap measures can be found in our third quarter earnings release published last week and in our company overview presentation filed on Form 8K this afternoon and posted on the investor relations section of our website at babcock.com.

Kenny Young | Chairman and Chief Executive Officer:

Thanks, Sharon. Well, good afternoon, everyone, and thanks for joining us today on our call. We continue to execute on our strategy to expand our global parts and services business while also focusing on large opportunities within North America and reducing a majority of our debt obligations. The increasing demand for power in North America drives our growth and aligns well with our strategy. to divest certain non-core assets to significantly reduce our debt while positioning B&W to play a pivotal role in supporting AI data center expansion and increased baseload generation needs. We are pleased to report a number of positive developments this quarter at Babcock and Wilcox, both in relation to our quarterly financials as well as our recent projects and partnerships that we have completed. Adjusted EBITDA and operating income significantly outperformed company and consensus expectations this quarter. Adjusted EBITDA was 58% higher compared to third quarter of 2024, while operating income was up 315% when compared to the same period of 2024. Our improved margins directly reflect the record quarter results for our parts and services business. During the third quarter, our global parts and services achieved the highest quarterly and year to date bookings, revenue and gross profit in recent company history. Our growing backlog continues to benefit from increasing demand across projects, upgrades and construction as power generation needs for industrials and utilities in North America continue to accelerate. In total, we saw our backlog rise 56% quarter over quarter to a total of over 393 million. Through a combination of disposition of non-core assets and equity raises, we have paid or will pay down the February 2026 notes by end of the year 2025. We also have the liquidity to pay down the December 2026 bonds a process that we plan to begin by end of year. Over the course of the past several months and with key equity raises last week, our balance sheet has significantly improved. With this improvement, along with the tailwinds from baseload generation demands in the market,

we have positioned B&W for substantial growth in 2026. We are currently projecting a range of \$70 million to \$85 million in EBITDA from our core business in 2026, which is 80% growth year over year from 2025. And this does not include any revenues or margin from our recently announced AI data center projects. We have been in discussions on several opportunities within the AI data center space, and we are seeing agentic AI as a new catalyst for higher power demands in the U.S. and around the world. We are pleased to announce that we have signed a limited notice to proceed with Applied Digital to begin work for the delivery and installation of natural gas technology that will provide one gigawatt of efficient energy for an AI factory and data center project. The total project valued at full notice to proceed will be over \$1.5 billion in total once finalized, and we anticipate that full notice to proceed to be released in the next few months. As a part of this deal, B&W plans to design and install four 300 megawatt natural gas fired power plants consisting of proven boilers and associated steam turbines to support Applied Digital's AI factory. The plant is targeted to begin operation in 2028. This technology carries equal efficiency as simple cycle turbines and can be operational much faster than combined or simple cycle power plant options. The impact from this deal on B&W is profound, adding 3 to 5 billion in AI data center opportunities in our pipeline. We are also pursuing other projects and opportunities, which brings our total global pipeline to 10 to 12 billion in totality, including Climate Bright and Bright Loop. Taking a look at our Bright Loop technologies, our efforts to progress Bright Loop are moving forward as we further the commercial development of our existing projects and continue working to improve the overall operational effectiveness of these technologies to produce low-cost hydrogen or steam. We're seeing increasing activity for Bright Loop technology, both for steam generation and hydrogen production that can produce energy with lower costs and expenditures. In fact, we're in discussions with a number of oil and gas companies and large utilities about using Bright Loop for specific steam or hydrogen generation projects. From a Climate Bright perspective, we are seeing an increased demand to leverage carbon credits, both in waste energy and coal energy, as optional offtake revenues for our customers. We also are in discussions on several opportunities and believe we can announce a significant carbon capture project utilizing our Solve Bright technology very soon. I'll now turn the call over to Cameron to discuss the financial details for the third quarter of 2025. Cameron?

Cameron Freymeier | Chief Financial Officer:

Yeah, thanks, Kenny. I am pleased to review our third quarter results further details of which can be found in the 10Q that is on file with the SEC. Our third quarter consolidated revenues were \$149 million, which was roughly in line with the third quarter of 2024. Global parts and service remained strong in the third quarter of 2025, with revenues of \$68.4 million compared to revenues of \$61.7 million in the third quarter of 2024. The improvement is primarily due to the increasing need for electricity from fossil fuels, driven by the demand from artificial intelligence, data centers, and expanding economies. Our net operating income in the third quarter of 2025 was \$6.5 million compared to operating income of \$1.6 million in the third quarter of 2025. Loss from continuing operations in the third quarter of 2025 was \$2.3 million compared to a loss of \$7.9 million in the third quarter of 2024, and our adjusted EBITDA was \$12.6 million compared to \$8 million in the third quarter of 2024, beating street expectations. As Kenny stated earlier, we have announced our 2026 full-year adjusted EBITDA target range of \$70 to \$85 million, stemming from our core business, which does not take into account any growth related to data centers. I'll now turn to our balance sheet, cash flow, and liquidity. Total debt at September 30th, 2025 was \$379.3 million, consisting of 98.4 million of February 2026 bonds, 90.9 million of December 2026 bonds, and 121 million of bonds due in 2030, with the remaining debt being related to our veterans of credits. As of September 30th, we have zero drawn on our asset-based loan. The company had cash, cash equivalents, and restricted cash balance of 201.1 million giving us a net debt as of September 30th, 2025 of 178.2 million. On October 2nd, B&W paid down 70 million of bonds that were due in February of 2026. And we recently announced the remaining outstanding February 2026 bonds will be paid down fully in December of 2025. Another notable development took place last week when the company was able to raise an additional 65 million of equity which has further strengthened our balance sheet and shows the ability to pay down the remaining of the 2026 bonds that are due in December of 2026. When factoring in our recent equity raise, this will leave us with a pro forma net debt of 113.2 million, which will be

between 0.8 to 1.6 times targeted 2026 EBITDA. Lastly, although we said on Friday that we would be pausing sales under the ATM program, We've decided to resume ATM sales and intend to sell shares under the ATM program opportunistically based on market conditions and our share price. I'll now turn the call back over to Kenny.

Kenny Young | Chairman and Chief Executive Officer:

Cameron, thanks. Well, in closing, as always, I would just like to recognize the efforts of our dedicated and talented employees that are around the world who focus on working hard every day to meet the challenges and supporting our customers while meeting the energy demands of today. I will now turn the call back over to Victoria, who will, and I think we have time for about three questions. So, Victoria, I'll turn it back over to you.

Victoria | Conference Call Operator:

Thanks. Of course. As he said, for today's call, we will only have time for three questions. Our first question comes from the line of Aaron Spichala with Craig Hallam. Your line is now open.

Aaron Spichala | Analyst, Craig-Hallum Capital Markets:

Yeah, hi, Kenny and Cameron. Thanks for taking the questions. Maybe first on the \$1.5 billion project, can you just talk a little bit about next steps that are needed and how you see potential contribution from a timing and margin perspective moving forward, and then just thoughts on the supply chain and working capital needs as that ramps?

Kenny Young | Chairman and Chief Executive Officer:

Sure, no, appreciate that, Aaron. Thanks for jumping on the call today. So first of all, we're actually right now working with Applied obviously to finalize the exact location where this will take place. And so we can finalize the full notice to proceed, which again, as you mentioned in the comments, we anticipate being done here in the next couple of months. As part of that, we're also behind the scenes working with a few of the steam turbines at this point in time and have secured some verbal commitments that we have the ability to meet these timeframes. And so we'll look to finalize those details on that as well as our own manufacturing of these particular boilers. The great news, I think, in this case is that we're using – I'm going to use the term off-the-shelf. So these are – these 300-megawatt boilers are designs that we have installed at several locations prior to this event. So this is a proven technology in architecture. And so there's very little, if any, engineering that needs to be performed in order to get these to a manufacturing state. We already have the construction drawings of each of these with application diagrams, the layouts, the header layouts, the tubing, everything associated with this type of a boiler to meet the specs and standards here in the U.S. and so it's an easy method for us to move that right into the manufacturing process and that's the exciting part here it's a rare opportunity for us to do and utilize a design that we have implemented in many locations prior so we're obviously very comfortable with the standards and the performance of those boilers easy to move into manufacturing and leveraging the fact that we have access to the steam turbines in a much faster um go-to-market model than than trying to leverage a combined cycle or simple cycle turbine plant um today so that's the benefit here on that but we're working through all of those in parallel with applied and again trying to have the phone notice proceed um signed here in the next couple months and we're working uh diligently behind the scenes to um move the project uh full forward um As it relates to the working capital aspects on it, you know, we'll work with Applied on the timing of that and how we move that forward. That'll be part of the full notice to proceed process here over the next couple months. You know, typically for us, we typically keep the working capital on projects like this at a neutral to, you know, positive. So, you know, down payment

requirements that we have with manufacturers and subcontractors are typically collected up front on these projects. I have no reason to believe it would be any different here. So we're moving forward under that direction, and Applied understands that as well. So we think that will help minimize this a little bit overall and any impacts of working capital on the company, and we should remain cash flow positive on this as we do on projects like this. at this point in time. So that's the overall plan. As far as revenue recognition goes and margin recognition, obviously we're a POC shop under that. It will depend on timing of when we can apply the cost to the project into next year. Some of that will be based on the final notice to proceed and the timeframe there. So it's a little bit vague and it won't be terribly much, I would say in 26, um you know i don't know i'm just throwing out a number maybe 10 15 um of the value would be realized then the the bulk of it would be based on the accounting methods would be realized more in the the 27 and obviously um uh 28. so um we've you know based on the fact that we're still finalizing that mtp uh in our guidance next year we have not included this project or any other data center projects in that 70 to 85 million range. So this would represent complete upside and probably significant upside to any number that we would be putting out right now. Cameron, I don't see anything you want to add to that, but otherwise, I'll turn it back to you.

Cameron Freymeier | Chief Financial Officer:

No, no. I think you hit all the points, Kenny.

Aaron Spichala | Analyst, Craig-Hallum Capital Markets:

That's very helpful. Thanks. You know, maybe just second on the additional pipeline sounds like, you know, last week it was a billion and a half. This today sounds like maybe three to five billion. You know, so maybe some growth there. Can you just talk about how mature some of those opportunities are and, you know, potential timing of when you could see some of those move forward as well?

Kenny Young | Chairman and Chief Executive Officer:

We are obviously in talks with several as it relates to, and have been, you know, I want to emphasize that have been prior to this announcement in talks with several on this particular solution in different sizes, right? Meaning in some would be smaller in a, MAYBE A HALF GIGAWATT RANGE, SOME ARE PERHAPS EVEN A LITTLE LARGER IN A, YOU KNOW, ONE AND A HALF TO TWO GIGAWATT RANGE. SO THERE'S A NUMBER OF THESE OPPORTUNITIES WHERE THIS SOLUTION MAKES THE MOST SENSE FROM BOTH A COST STANDPOINT AS WELL AS DELIVERY AND TIMEFRAME STANDPOINT. SOME OF THAT WOULD BE SUBJECT TO, YOU KNOW, COMPLETE AVAILABILITY IN THE MANUFACTURING AND THE STEAM TURBINE SIDE. AND AGAIN, YOU KNOW, THE EARLY INDICATIONS ARE WE'VE GOT SOME REAL POSITIVE CAPACITIES THERE TO MEET THIS ENTIRE DEMAND. And so it's on some of those that will be working with them to move forward, hopefully on a couple of those opportunities, if we can get them to commit, I would say those would be in the next year's timeframe to announce on that regard. But we're obviously involved with these other opportunities that are out there and fully intend to push those across um the goal line the that's on this solution the other ones that we're heavily working with is related to our denim partnership um and we are working very closely with denim capital right now on a number of locations um to convert some coal plants to natural gas and that that's also in the works as well too so i think you know we have Those opportunities are within that opportunity and pipeline as well as the other natural gas and steam turbine combination that were proposed for applied would also be in that opportunity as well. So the combinations of all that and the sizes of those, we decided to take the pipeline up even a little bit further from last week.

Aaron Spichala | Analyst, Craig-Hallum Capital Markets:

That's great. Thanks for the color and best of luck. I'll turn it over.

Victoria | Conference Call Operator:

Thanks. Thank you for your questions. Our next question comes from the line of Rob Brown with Lake Street Capital Markets.

Rob Brown | Analyst, Lake Street Capital Markets:

Good afternoon. On the ability or your capacity for that pipeline, what is your capacity sort of in this PowerGen segment, and how do you sort of think about capacity kind of limits there?

Kenny Young | Chairman and Chief Executive Officer:

So there's two main components to that capacity aspect, Rob. And thanks for jumping on, by the way. There's two aspects to that. One is the manufacturing of the boiler, fabrication of the boiler. For us, that's par for the course, right? That's what we do. And we have been looking and evaluating our own internal capacities that we have today. AS WELL AS OUR EXTERNAL PARTNERS THAT WE USE IN VARIOUS PLACES AROUND THE WORLD TO MANUFACTURE THESE KIND OF SYSTEMS. SO ALL OF THOSE COMPANIES ARE ON BOARD WITH THIS. AND QUITE FRANKLY, IT'S A VOLUME. MANY OF THESE MANUFACTURING AND FABRICATION GROUPS ARE COMFORTABLE AND USED TO DEALING WITH PROJECTS OF THIS SIZE. SO IT'S JUST A MATTER OF HOW MUCH WE CAN PUT INTO EACH LOCATION ON THAT. AND WE'RE GOING THROUGH THAT RIGHT NOW. I would say within the pipeline that we have today, again, depending on the exact timing of some of this, we feel pretty comfortable that we can complete the manufacturing and have the capacity to do that on the boiler fabrication and manufacturing. On the steam turbine aspect of this, the good news is there's a lot more steam turbine companies than there are combined cycle and simple cycle companies. out there. We're in, you know, can't give names right now, but we're in discussions with several and are quickly trying to move into a relationship with them that we have this capacity secured, you know, and we believe just based on a lot of the early conversations that we're having with these particular groups that that capacity does exist. maybe across, you know, a couple different manufacturers, and we'll have to work through that. But, you know, from a steam turbine perspective, we think these opportunities do exist. They're obviously very excited because this is a way for them to get involved in a high-growth area for them as well, too. So, so far, it's been full energy, if you will, across both the manufacturing side and on the steam turbine side as well.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, thank you for that. Switching to kind of the climate-pride projects, I think you mentioned the CO2 capture opportunity that's developing. Can you give a little more color there on when that might happen and what the size could be?

Kenny Young | Chairman and Chief Executive Officer:

Yeah, so there are, you know, a few projects that we're in dialogue and discussions on. Some of these are, you know, feed studies that, you know, we always talk about feed studies out there, feed studies meaning front-end engineering design studies, and we have several of those going on at this case. So, you know, we're in discussions right now to finalize an opportunity and, you know, feel like that can happen fairly soon,

hopefully, you know, not days, weeks at max. ON A PROJECT THAT WE CAN PUT OUT AND, YOU KNOW, BORDER MAGNITUDE, YOU KNOW, WOULD BE IN THE I JUST CALL IT 72 um 100 million ish in that category i'll leave it kind of a little bit of a range there as we finalize it but um you know on the initial project itself and then you know there's probably more opportunities and upside on that but um we're we are seeing um you know in the us from some of these operators and the hyperscalers and other aspects where you know a few occasions they would like to have the CDRs or the carbon offtake and the groups that are building out these power plants are looking at how they can capture CDRs or carbon to be able to sell those as additional revenue for the plant owners as it relates to building out the infrastructure to support the hyperscalers. And we've seen that with a few developers and we've got, I think, a pathway here to hopefully announce a project or two, but one specifically in the next days, if not weeks.

Rob Brown | Analyst, Lake Street Capital Markets:

Okay, thank you. Congratulations on the progress. Yeah, thank you.

Victoria | Conference Call Operator:

Thank you for your questions. Our next question comes from the line of Brent Thaleman with BA Davidson. Your line is now open.

Brent Thaleman | Analyst, B.A. Davidson:

Hey, thank you. Hey, Kenny, I want to ask just back on the Applied Digital contract, a billion and a half dollars, is that all within B&W's Scope, I know this is all getting worked out, but obviously it's a, it's a massive potential uptick to. The backlog that you have today, so just wanted to kind of understand what's all in there.

Kenny Young | Chairman and Chief Executive Officer:

Yeah, no, this is that that doing and a half would anticipate and represent scope as associated with this project, right? would bring all of the aspects and elements of the boiler and the steam capabilities, plus the construction aspect, right? We have our own construction company here in the U.S., so it'd be blended with construction, the steam turbines and the boiler aspect of it. And then we'll work through some of the other elements to complete the plant on time and on schedule. We'll work with the plant on that. So we put it as over a billion and a half at that site. The total value could be higher depending on final scope. And we'll just have to work through that. But I wanted to give some idea and indication of what it looks like from a B&W perspective. So we intended that to be our scope. The scope of the project would be a little bit larger. under that scenario, but we'll work with them to complete that once we have the NTP finalized.

Brent Thaleman | Analyst, B.A. Davidson:

Okay. Yeah, I appreciate that, Kenny. And then I guess just as a follow-up, anything you can say in terms of just risk sharing associated with it? Is this all fixed price in terms of execution? And I noticed there's an equity component that Applied Digital gets in BW. Maybe just talk about that whether that's going to be something that's ongoing as you look to maybe some of these other opportunities out there.

Kenny Young | Chairman and Chief Executive Officer:

You know, it's hard to say whether that same model would exist elsewhere too early. Not saying it won't, but hard to say right now. On it, we viewed it as a very positive thing. We think, you know, having Those warrants out there, obviously, there's incentive for applied to get the NTP done sooner and complete, obviously. But, you know, also, you know, there's buy-in, if you will, or support for BW overall, not only as a potential customer and client, but, you know, as a shareholder as well, too. We think all of that's very much positive. And we, you know, obviously have seen that throughout some of the data center and other aspects as well, too. So, we view that as overall very, very positive. As far as the risk share, we're working through that right now on how that would appear to be. The outside manufacturers and seed turbine companies would share a part of that risk overall as well, too. And, you know, we as we always do, we look to balance it. I think the biggest piece here is that and this is what greatly reduces the risk overall to us is that this is these are projects and technologies that we have. performed on a multitude of other occasions. So, there's no new technology being designed or installed here or implemented here. This is well-proven technology that has been installed in tens, if not dozens, of locations where B&W has actually constructed these. Obviously, we have the I think, advantage in the U.S. having our construction company and leveraging the boilermakers who are a great welder and fabrication aspect of this on site. But again, these are all boilers that have been built previously. So we know the performance, we know the complexity that's involved in these, the timeframe that's involved in these, you know, and as well as we've gone through all of the risk aspect of overseeing the manufacturing processes of these and understand how to manage that manufacturing process effectively. And we've got all the best practices and everything from each of these that we've implemented in prior periods. So this is unlike any other large project that B&W has been in historically. This one I think is extremely unique and opportunistic because it is something that has been done many, many times before. And there is absolutely no new technologies being implemented here. So, to us, that's a significant reduction in risk in that case, and the terms and conditions will all be detailed in the final notice to proceed.

Brent Thaleman | Analyst, B.A. Davidson:

Okay. Got it. Thanks, Kenny.

Victoria | Conference Call Operator:

Thank you for your questions. That will conclude our question and answer session today. I would now like to pass the call back to Sharon for any final remarks.

Sharon Brooks | Director of Communications:

Thank you for joining us. This concludes our conference call. A replay will be available for a limited time on our website later today.

Victoria | Conference Call Operator:

That concludes today's call. Thank you for your participation and enjoy the rest of your day.