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KBR, Inc. (KBR)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Thank you for attending today's KBR's Second Quarter 2025 Earnings Conference Call. My name is Meghan, and I'll be your moderator for today. 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 call over to Jamie DuBray, VP of IR with KBR. Please go ahead.

Jamie DuBray

Vice President-Investor Relations, KBR, Inc.

Thank you. Good morning and welcome to KBR's second quarter fiscal 2025 earnings call. Joining me are Stuart Bradie, President and Chief Executive Officer; and Mark Sopp, Executive Vice President and Chief Financial Officer. Stuart and Mark will provide highlights from the quarter and then open the call for your questions.

Today's earnings presentation is available on the Investors section of our website at kbr.com. This discussion includes forward-looking statements reflecting KBR's views about future events and their potential impact on performance, as outlined on slide 2. These matters involve risks and uncertainties that could cause actual results to differ significantly from these forward-looking statements as discussed in our most recent Form 10-K available on our website. This discussion also includes non-GAAP financial measures that the company believes to be useful metrics for investors. A reconciliation of these non-GAAP measures to the nearest GAAP measure is included at the end of our earnings presentation.

Beginning this quarter, for the current period and all prior periods, we are reporting results on a continuing operations basis, with the impact of the wind down of HomeSafe Alliance JV reported as discontinued operations. Unless otherwise noted, the information presented herein reflects continuing operations only. Refer to note 17 in our Form 10-Q for full details on discontinued operations. To facilitate investor modeling and analysis, we have

provided an updated data sheet, which recast historical results on a continuing operations basis. This schedule is available on our Investor Relations website and available via the QR code shown in the appendix.

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

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

Thanks, Jamie, and good morning, everyone. I will pick up on slide 4. Today, as with all meetings at KBR, I'm starting off with Zero Harm moment. The Safety Excellence Awards are given each year to contractors or subcontractors with excellent safety records at an asset owner site. The award helps companies learn from each other by sharing safety ideas and best practices. Each year, the Industry Business Roundtable selects the top safety performers from nominated contractors and subcontractors. This year, our Brown & Root joint venture won the top award for large contractors.

Our Brown & Root JV continues to perform really well and has actually grown more than 30% post-COVID. We don't often talk about the value-add we bring to our unconsolidated JVs, but I think this is a great example of slowdown world-class programs delivering top quintile performance. Really good stuff.

Now on to slide 5 and some key messages. Now, before we begin, I want to address the recent and unexpected termination of our HomeSafe Alliance joint venture contract by USTRANSCOM. Importantly, the company and our people put in a tremendous effort into this transformational program. We are, of course, disappointed with this outcome. And while we wish our perspective had been more fully considered, we acknowledge there were operational challenges. We are committed to learning from this experience. This allows us to refocus our energy on our core business of MTS and our strategic vision is unchanged, and KBR remains strong in our markets.

With that, now on to our Q2 performance. First, we delivered solid performance on the top line with revenues of \$2 billion and strong bottom line performance, with adjusted EBITDA of \$242 million. We generated an adjusted EBITDA margin of 12.4%, up 70, 7-0, basis points year-over-year. In volatile times, a strong focus on both bottom line and cash performance is extremely important. This includes cost management and delivering with excellence to improve margin performance overall. This focus really delivered for us in Q2 and of course, year-to-date.

Second, we continue to successfully execute our growth strategy through customer centricity and focus on key geographic markets, one of which is the Middle East. In addition, with the details of the Reconciliation Act of 2025 now available, today, we will share how we are poised for growth in key defense areas. Third, we continue to demonstrate consistent, disciplined capital allocation with continued share repurchases and active management of leverage.

Next, we are adjusting our previously provided 2025 guidance to remove HomeSafe and to address the impacts we've seen from DoD defunding of programs and delayed protest resolutions. The good news is there's no change to our profit and cash flow outlook and we are confident some of the business will be restored or replaced in the out-years, as the new administration settles and incremental funding under the recently passed Reconciliation Act starts to flow.

As HomeSafe also had considerable revenue embodied in our long-term targets, it's appropriate to remove those from expectations. Mark will be going into more detail on all of this later. Finally, we remain committed to creating shareholder value. Moving into this year, we reduced our organizational complexity by collapsing what was the international government portfolio moving the appropriate business elements into what is now Mission Tech and Sustainable Tech to deliver greater alignment, synergy and efficiency.

We are prioritizing pursuits in MTS to be commercially rigorous and aligned with the spending priorities in the new defense budget and expand geographical reach in STS as markets adjust to the new normal. This is intentional to enable strategic optionality for us to execute on opportunities to maximize shareholder value. Today, both MTS and STS are delivering strong bottom line numbers. Our pipeline on bids awaiting award are at record levels and we are optimistic that conversions are forthcoming. We are committed to making both businesses stronger on a combined or a stand-alone basis.

On to slide 6. I will highlight a few of our recent wins. Starting with MTS, we were awarded a subcontract with Strategic Resources to expand our psychological health services to aid Army training. We announced the win of the Djibouti Base Operations Contract worth \$476 million, which is one of our major recompetes this year. And we continued momentum with the Air Force Research Lab customer by winning multiple strategic contracts under the Innovative Cyber/Infrastructure Threat Assessment Environment, which is called I-N-C-I-T-E, INCITE. Finally, we were awarded the LOGCAP V contract extension through to 2030 for both EUCOM and NORTHCOM.

Moving on to the STS segment, we recently won a large award for a world-scale ammonia and urea complex. The client remains confidential. However, this win is significant as it demonstrates the commercial value of our integrated services and proprietary technologies, and we are looking to apply this on several other ammonia projects in our pipeline. Similarly, we won a FEED contract for the KAR Electric Power Production called KEPPT in Iraq based on the KBR proprietary ammonia technology also.

We were selected by BP for both detailed engineering and procurement services for the largest oil and gas terminal in Azerbaijan and for the Shah Deniz gas project also in Azerbaijan. We are the partner of choice, because we have local capabilities, clearly differentiated. Finally, you may have seen that Mitsubishi Chemicals (sic) [Chemical] (00:09:07) and ENEOS announced the opening of the plastics recycling plant in Japan this past month, which uses the exclusively licensed Hydro-PRT technology from KBR. At the group level, we ended the quarter with a 1.0x TTM book-to-bill and \$21.6 billion in backlog and options.

Slide 7. This quarter, I wanted to provide a little bit more color on our pipeline and the award cadence we are seeing in both segments. In MTS, we currently have \$19 billion in bids awaiting award, of which 72%, 7-2%, represent new business. This includes significant contributions from national security space, national intelligence, test and evaluation, and other US government priorities. As mentioned last quarter, we still have \$2 billion in contracts that have been awarded to us as the winning bidder, which remain under protest. The extended delays have contributed to revenue shortfalls this year, and Mark will touch on this later.

Encouragingly, we have seen recent success in our new business acquisition efforts. The win rates for the first half of 2025 are up compared to the first half of 2024, demonstrating that prior investments in BD are yielding positive results. In addition, we expect to increase our bid submittals by 30% in 2025. And this underpins our confidence in continued growth within MTS when government operations stabilize.

This being said, the government contracting environment is changing quickly, particularly in the US. More funds have been directed towards national security with improved speed of delivery of advanced capability to the warfighter and cost effectiveness being driven hard by the new administration. I'll cover tapping this opportunity shortly.

In STS, the first half of 2025 presented a dynamic landscape with evolving market conditions, shifts in global trade, regulatory environments, and changes in energy priorities, including a greater focus on affordability and the balance between sustainability and energy access. And these have influenced project timing and market

approaches. Despite these factors, the business has adapted to new opportunities, realigning priorities to meet the shifting demands of the industry.

STS continued operations across multiple energy vectors, delivering projects in established and emerging markets. Results from Q2 reflected ongoing activity in core markets such as LNG, ammonia and infrastructure. No significant competitive tenders were lost. But several large awards were deferred due to earlier challenges and are now anticipated in Q3.

Heading into the second half of 2025 and into next year, the STS pipeline remains robust and diversified, with over \$4.5 billion in opportunities for Q3 and Q4. We saw approximately \$1 billion in potential awards shift from the first half to the second half of the year, bringing the total expected in the second half to more than \$1.5 billion. In conclusion, demand remains strong, but decisions have been delayed. Thus, we remain confident in both our growth strategies and our execution.

On to slide 8. We have a four-pillar growth strategy centered on expanding in key markets through delivery and innovation, achieving leading margins, and then deploying capital back to our shareholders. As you know, the Middle East has been a core geography for us to capture breakout growth, as evidenced by the 20% growth in the region on a trailing 12 months' basis. And today, I want to take a deeper dive into this region.

As we discussed earlier, the Middle East has been busy despite regional nuances. While there are priority shifts in Saudi to gas development, including ammonia and infrastructure, with oil and petrochemical development a lesser priority, Saudi is sorting through priorities across energy security, energy transition and infrastructure. We are seeing an offset in other countries, including Iraq, Kuwait and the UAE. These countries are also making investments to further their strategic policies for economic diversification, leading to increased industrial technology and infrastructure spending and are key focused geographies for us. KBR represents a well-known and dependable supplier in these markets with reference projects and customers throughout this area.

In Iraq, we have a significant presence in-country across several projects, including working with the Ministry of Planning directly to support the strategic direction of the country. Now Iraq aims to ramp up oil production and is investing in gas capture projects, petrochemical expansions and clean hydrogen economy initiatives. Similarly, in Kuwait, we have a strong presence and we also see a robust pipeline of opportunities. The country's Vision 2035 includes generating 15% of its electricity from renewables by 2030 and developing up to 25 gigawatts of green hydrogen and ammonia capacity by 2050. In addition, Kuwait plans to increase oil output and is expanding gas production, refining capacity and renewable energy initiatives.

And in the UAE, KBR has been a trusted partner to ADNOC for years and manages over \$100 billion in CapEx on key programs within ADNOC's portfolio. Additionally, KBR has recently been awarded the TAQA Nexus project to enable expansion of electricity and water distribution to planned data center investments. The UAE is investing over \$400 billion by 2035 in energy diversification, de-carbonization, LNG expansion, digital infrastructure, making it a global leader in energy and digital infrastructure investments.

Our strategy focuses on building customer intimacy, really understanding client sustainability goals and offering tailored solutions. We maximize in-country volume by boosting local employment, enhancing training and, of course, developing local talent. Our differentiators include deep local engagement, strong partnerships, rapid solution deployment, and advanced digital capabilities. This is another example of how KBR's multiple pathways to growth provide an agile, resilient business model.

On to slide 9. Our details of next year's defense budget request are now available, and the Reconciliation Act has been approved through the House and Senate, as I'm sure you're well aware. So, we have line of sight to the first of a \$1 trillion defense budget, which is lined up for 2026. This includes an incremental \$150 billion in spending for national security priorities on top of the President's budget request of about \$850 billion for baseline defense spending. And it's a great time to discuss what this means to KBR. The new administration prioritizes efficiency and mission outcomes, of which KBR is directly aligned through a technology integrated solutions and operational focus, which are differentiated in the market.

Starting with RDT&E wedge of the defense budget, which is well aligned to our Defense & Intel business units. The US Space Force budget, including reconciliation, is programed for an incremental circa \$11 billion. Now that's 35% more than full year 2025 levels. KBR is well positioned to capitalize on this budget increase following our acquisition of LinQuest and Centauri and acquisitions on several existing contracts, including USSF-specific IDIQs with limited competition.

Golden Dome funding of \$25 billion was included in the Reconciliation Bill. As this program matures programmatically, KBR is very well positioned to existing USSF, Army, Air Force and Intelligence Community contracts. KBR has a long history of engineering support to the Missile Defense Agency on platforms including Patriot, THAAD, Army IBCS and various sensors, including over-the-horizon radar and Low-Tier Air and Missile Defense Sensors.

Given the urgency of the Golden Dome timeline, we expect much of this funding to flow through existing contracts and vehicles, which we are well-placed, such as the IAC MAC and [ph] SBIR Phase IIIs (00:14:13). \$40 billion of investment in Future Weapons Systems creates significant opportunity that KBR is already actively positioning to capture. We have a strong pedigree of engineering expertise and technical support to several programs that are in higher demand in the new budget, including Patriot Missile Defense, LTAMDS sensors, THAAD and IBCS. KBR's Intelligence Community portfolio is well-positioned for growth, also with both national and military intel budgets up significantly.

Moving on to the O&M wedge, there is good opportunity here as well, addressable by our Readiness & Sustainment business unit. Geopolitical tensions heightened the need for additional O&M spending. And R&S, as you know, has a good position globally relative to O&M increases going forward, as well as unmatched capability in contingency operations for rapid and expeditionary support.

The Reconciliation Bill provides \$16 billion more in O&M for Army, Navy, and the US Air Force sustainment, all customers and areas where KBR currently has strategic portion and market share. Munitions, storage and transport are also key funding priorities for this administration. And we will be pursuing opportunities here through our leading digital solutions for asset management, optimization and readiness.

I also want to touch briefly on the outlook for the 2026 NASA budget, which is well aligned to our Science & Space business unit. Of course, the budget today is not yet final and any impact to KBR will be in 2026. While the Presidential budget request saw a significant NASA budget cut, both the Reconciliation Bill and congressional appropriators aim to fund NASA closer to the full year 2025 in active levels.

KBR's work is operational and core to NASA's primary mission. We fly the ISS. We perform space launches, spacecraft development and operations, and we build the next generation of spacesuits. And we prepare NASA and private astronauts for their missions. And we fully expect these activities to be supported in the 2026 budget.

Specifically, there is \$10 billion in the budget reconciliation for NASA aimed at strengthening NASA's national security missions. The House and Senate committees are working to preserve funding for key science programs. This should provide support for our work on the Artemis program and our ongoing work supporting the ISS out of the Johnson Space Center.

KBR has provided six decades of support to the moon and other space missions. While details are not clear on which science programs will be funded, it's good to see more support, and that exposure here is not significant to the bottom line. Last but not least, we see future growth opportunities with commercial space and also with the necessary future expansion of the space launch infrastructure.

Although not related to the US government budget, it's also important to note the International portfolio within the D&I business unit is also well positioned. Both the UK and Australian governments just came out of post-election strategic planning and are now moving to execute sovereign priority investments that KBR is well positioned to capitalize on, including space, maritime, missile defense and intel domains. We support the AUKUS program, which remains a key component for Indo-Pacific deterrence and continues to get strong bipartisan support. We have also just completed a small acquisition, taking us strategically into the classified market in the UK called Infrastar.

On to slide 10. We have intentionally positioned the company effectively to capitalize on these priority funding areas of advanced defense technologies, military space superiority, digital engineering, intelligence and mission cybersecurity. In line with this strategic focus, I would like to outline the key objectives for MTS to capture these opportunities, bringing advanced capabilities to the warfighter and in turn, further drive top line growth and drive margin expansion.

We will strategically realign resources and investment to capture new priority areas, particularly those incrementally funded by the Reconciliation Act. We are accelerating model-based systems engineering and AI solutions through a broader set of government customers. So, for example, KBR developed a digital test environment where we are accelerating in the development and testing activities for the Air Force's Collaborative Combat Aircraft program across six OEM contractors using cutting-edge, model-based system engineering platforms. Now, this digital capability will reduce the development time from decades to just a few years, driving greater speed and lower cost of capability to the warfighter. There are many, many broader applications for this type of digital capability, and it can be applied to most weapon systems.

In another example, we're using a digital lab in Huntsville, Alabama, to assess digital maturity for Army command and control challenges across integrated missile defense, ground vehicles, aviation platforms and sensors. This work includes moving away from traditional manual methods and creating innovative digital environments that provide faster data-driven insights to the customer for improved design, effectiveness and speed.

We're also strengthening government relations to communicate our agile capabilities to shape new opportunities, tap existing contract vehicles and leverage KBR's broader commercial acumen. We're also expanding our presence in high margin international markets and continue to add scale through a unique combination of technical consulting and program delivery. And a good example of this is leveraging Frazer-Nash Consulting engagement across the whole nuclear ecosystem.

And fifth, we are driving operational excellence to enable increased investment and growth, and this will include further enhancing shared services and digital enablement for our support functions. We welcome the administration's sense of urgency to accelerate digital and commercial solutions to improve national security effectiveness, which aligns to our own business profile and our strategy.

With this, I will now hand over to Mark.

Mark W. Sopp

Executive Vice President & Chief Financial Officer, KBR, Inc.

Great. Thank you, Stuart. I'll start on slide number 12. So, as Stuart just laid out, the first half of 2025 has seen its fair share of challenges. However, I'm pleased to report our results and outlook speak to our resiliency and multiple paths to deliver bottom line profits and cash flow.

Revenues in the quarter were \$2 billion, up 6% versus the prior year, driven by growth across both segments. Stuart touched on the reasons for this being lighter than expected, which extends to our outlook. Adjusted EBITDA was \$242 million, up 12% with margins at 12.4%, an increase of 70 basis points versus the prior year. Margins were stable in MTS and improved in STS with strong performance in all areas. Adjusted EPS was \$0.91 in the quarter, up 10%, reflecting a mix of normative interest and taxes with net unfavorable non-op expenses despite the lowered share count from buybacks. Year-to-date operating cash flow was \$308 million. That's up 20% versus the prior year, with a conversion rate against net income of 123%.

Now on to slide 13 and our segment performance. I'll start with MTS. Revenues of \$1.4 billion were up 7% versus the prior year, with adjusted EBITDA of \$141 million, up 6%. Margins were 10%, flat and in line with our targets. By business unit, Defense & Intelligence generated strong growth of 21% due to the LinQuest acquisition made in Q3 of last year and growth in International, particularly Australia, which was up 10%.

Readiness & Sustainment contracted due to a slowdown in certain activity within the European theater and a pause in some logistics work tied to the Army's Transformation Initiative. And Science & Space remain consistent with growth opportunities currently limited due to uncertain NASA funding policy so far under the new administration.

For STS, revenues of \$540 million were up 2% year-over-year, reflecting some softness in new awards and conversions so far this year, driven by the factors Stuart mentioned earlier. The good news is that, similar to MTS, STS has built a solid pipeline that we believe is well-positioned for conversion once uncertainty settles down. Adjusted EBITDA was \$129 million, up 17%, with margins of 23.9% in STS, an improvement of more than 300 basis points.

The margin strength continues to be driven by unconsolidated joint ventures, particularly LNG performance, as we continue to unlock value through strong project execution and excellent production metrics for the client. We expect to continue progressing on key LNG milestones and retiring risk over the course of this year, next year and into 2027. Based on our current milestone schedule, we anticipate fairly stable equity and earnings contributions from unconsolidated joint ventures in STS across the first and second half of this year and similar levels in 2026 as well. So, again, pretty flat expected performance from first half this year to second half this year and doing that again in 2026 at the current expectation.

Now that we have covered continuing operations, let me quickly address the wind down of HomeSafe. Details of this discontinued operation are provided in our 10-Q, but here are some of the main figures.

The year-to-date after-tax loss on discontinued operations, which was attributable to KBR was \$36 million year-to-date. Of this amount, losses from operating the underlying program were about \$24 million, but the remaining \$12 million comprised of impairment of assets and provisions. The year-to-date cash impact was about \$30 million,

outgoing, of course. And going forward, we expect some fairly minor trailing expenses with estimated cash outflow for the second half of about \$20 million, including net liabilities carried over.

Now move on to 14, balance sheet and capital matters. During the quarter, we did continue to execute our balanced capital deployment strategy. We ended the quarter with a net leverage of 2.4 times, down from 2.6 times in the prior quarter. That's the deleveraging we talked about at the beginning of the year.

During Q2, we returned \$70 million of capital to shareholders, comprising \$22 million in dividends and \$48 million in share repurchases, bringing total capital return to shareholders to \$245 million year-to-date, delivering a 3% reduction in share count so far this year. Our capital allocation priorities remain unchanged, focusing on returning capital to shareholders while maintaining responsible leverage.

So, with that, let me shift my comments to the balance of the year outlook. So, over to slide 15. We are updating our revenue guidance for fiscal 2025 from \$8.7 billion to \$9.1 billion as a range to the new range of \$7.9 billion to \$8.1 billion, with a midpoint of \$8 billion. We have provided a walk from our previous revenue guide midpoint to our revised guide midpoint on the right side of this chart and here I'll cover the components.

First, our original guidance was based on assumption that HomeSafe would provide estimated revenues in the range of \$300 million to \$500 million for 2025. And as such, we've removed \$400 million at the midpoint from our guidance. Second, our original guidance had also assumed the continuation of the current European Command work supporting the Ukraine conflict, which had a run rate of \$200 million to \$400 million per year.

Additionally, we are seeing impacts from the Army Transformation Initiative I mentioned earlier as they sort out various logistics priorities around the world. Together, we are reducing revenue guidance by \$250 million for the year for these two items.

And lastly, we are moving \$250 million of revenue for delays in protest resolution. Of our various awards last year, \$2 billion in contracts awarded to us remain in an extended protest process. Our plan for this year included significant revenue contribution from these in the second half of this year, and as they are still in protest with no affirmative date of resolution, we are removing them from our guide.

Typically, new wins would offer some offset to these types of unexpected reductions. However, despite the buildup of bids awaiting decision, we're at the point in the year where conversion of awards to revenue, including likely further protest delays, may be difficult to achieve. Our guide assumes these opportunities shift to 2026.

Importantly and has been indicated on prior calls, we did not factor in profit contribution from HomeSafe in our original guidance this year. Also, the margins on our EUCOM Ukraine support and the logistics programs frozen are very low. At the same time, the profit contribution from other areas in KBR are either on or above track, providing an equivalent offset. Accordingly, the reduction in our revenue outlook does not impact our adjusted EBITDA outlook.

Below-the-line items were a little high in Q2, as I said earlier, but they are normative on the year-to-date basis. As with our adjusted EBITDA outlook, there is no change to our adjusted EPS outlook for the year. With the first half behind us, we are narrowing the range on both adjusted EBITDA and EPS metrics, with the midpoint remaining unchanged.

Operating cash flows were healthy for the first half, with no change to the bottom line expectations. Our cash flow guide of \$500 million to \$550 million for this year is unchanged. With the removal of HomeSafe, we're also

updating our CapEx guidance to take out about \$20 million, bringing our expected CapEx for the year to be between \$30 million and \$40 million for continuing operations. All of the key assumptions in our guidance are unchanged, including tax, depreciation and interest expense.

Now shift to our long-term targets for 2027, on slide 16. These targets include a meaningful contribution from HomeSafe, so it's appropriate to address those impacts today. Starting with revenue, we previously gave a consolidated target of \$11.5 billion plus and a segment growth compounded annual growth rate of 11% to 15% for both segments.

The MTS segment growth CAGR is being restored to the pre-HomeSafe range of 5% to 8% and the STS segment growth CAGR remains intact at 11% to 15%. We're setting the 2027 target to \$9 billion plus in revenues in terms of value. These targets do include contributions from the LinQuest acquisition we made last year. Despite recent market disruptions in government contracting, global commitment to national security spending remains strong.

With incremental funding from the Reconciliation Act and the factors discussed earlier, we believe the 5% to 8% growth targets for MTS are still achievable. Regarding STS, we see recent soft bookings as temporary since underlying fundamentals continue to support robust opportunities as demand for energy security, energy transition and critical infrastructure solutions grows worldwide.

For profitability, our goal for 2027 was to provide \$1.15 billion of EBITDA on an adjusted basis. And as you can see, this year, we're guiding a midpoint of just under \$1 billion. With these growth assumptions I've just laid out and ongoing strong margin delivery, the \$1.15 billion of adjusted EBITDA is within reach for 2027.

For EBITDA margins, we had expected some dilution in MTS from the HomeSafe program. Hopefully, you recall that. With this being removed, our target is now 10% plus for MTS and we're modifying STS just a tad to say 20% plus going forward in our targets. Lastly, we're updating the operating cash flow target to \$650 million in 2027. While the EBITDA target is unchanged, HomeSafe was designed to run on very low DSOs, which had a boost to cash flow generation in our previous targets. So the revised targets now reflect a normative working capital profile for MTS and STS.

In conclusion, you might recall that our previous EBITDA target for 2025 was \$925 million, which included some HomeSafe contribution. Our current 2025 guide is well above that target, with no HomeSafe contribution. So, this provides a good demonstration of our ability to tap multiple pathways to achieve results from our global business base with particular focus and execution on profit generation.

With that, I'll turn it back to Stuart.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

Thank you, Mark. I'm on slide 17 with some key takeaways. In closing, we delivered solid financial performance in the second quarter. We continue to execute our strategy, increasing our bid volumes and winning new contracts. We have a balanced and resilient business portfolio offering multiple pathways to growth. We are maintaining a disciplined approach to capital allocation, as Mark shared earlier, actioning on our share buyback authorization and returning capital to shareholders.

We have updated our annual guidance and importantly, our long-term targets for the impacts of HomeSafe. We remain committed to creating shareholder value, intentionally enabling future strategic optionality.

So, thank you for joining the call. And with that, we're happy to answer your questions. And I'll hand you back to the operator to do so. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will go to the line of Tobey Sommer with Truist. Tobey, your line is open.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

Yeah. Thank you. I appreciate the detail in your updated guidance and the long-term targets. As you were putting it together, what were the just sort of upside and downside risks factors? Maybe the top couple that you were considering in kind of setting those numbers?

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

Thanks, Tobey. Yeah. Quite an exercise to do in the timeframe. So big shout out to the teams for putting this together, particularly the long-term outlook. We, of course, like many others, are confident of increased conversion of our pipeline. I would say that that's a key factor in the funding that flows from that as the Presidential budget and the Reconciliation Act start to take shape and mature. And that was really the principal key factor in addition to actually looking at geopolitical movements and what's happening across particularly the Middle East. And, I mean, for example, during this quarter, the situation with Iran caused or posted two weeks delay in terms of awards and as people were worried, of course, with the broader situation spilling over.

So, you've got to make the assumptions that things will remain in operable in a geopolitical sense, because we cannot predict that. But really, the key fundamental was really just getting the understanding where we're positioned. That's why we spent quite a bit of time in the scripted remarks, really sort of trying to strategically educate where we would be positioned in future administration's priorities as the funding flows and the assumption is that funding would flow.

And you'll notice that the targets themselves are long-term targets to remove HomeSafe and are really floor numbers. So, logically, that would mean we're at the bottom end of the CAGR ranges there, which makes perfect sense. So, this was – we – I think we've been quite thoughtful of how we position those long-term targets.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

My follow-up would be, from a reputational standpoint, related to HomeSafe. And with that, not that specific customer, but that set of customers, how do you feel like the company is positioned from an ability to win and retain work? Do you think that your win rates on recompetes and new business will suffer as a result of the experience?

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

No. I mean, HomeSafe was a joint venture. We were a joint venture partner within that environment. But no, we don't foresee any impact. I think KBR has got strong relationships with its customers. We are engaged with them

every day, and in fact, that engagement has increased as a consequence of how we need to interact with the government today, and we're not seeing any impact.

Operator: Thank you, Tobey. Our next question will go to line of Michael Dudas with Vertical Research. Michael, your line is open.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Q

Good morning, Jamie, Stuart, Mark.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

Good morning, Michael.

Jamie DuBray

Vice President-Investor Relations, KBR, Inc.

A

Good morning, Michael.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Q

Stuart, looking at Sustainable Technologies, you talked about an earlier presentation about the new normal. I just wanted to contrary that the new normal, we're talking about BBB, Big Beautiful Bill, the geopolitics. And just the sense of how – where you were thinking maybe a year or two ago, where the buck was going, where the markets are, how that – you're adjusting to that to allow to maintain this revenue target through 2027 and assuming pretty healthy margins to offset some of the uncertainty on the MTS side? Thank you.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

Yes. I think the new normal relates much to, as you rightly said, just the geopolitical shifts and where the markets are ebbing and flowing. And again, we tried to provide some color on, I guess, the vision of where certain countries are going and our position within them, which I think is a key differentiator. I think secondly is really around the settling down of tariffs and the impact of tariffs to capital spending and certainly how that sort of manifests itself over the medium to long term. But what we're seeing today is really there was a pause because of the issues in the Middle East. There was also the [ph] heat holidays (00:45:31) in the Middle East as well this quarter. And we are confident that the cadence of awards will pick up as we move through into Q2 and the fact that we've announced a number of them in July already. So, I think we've got some basis to make that statement.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Q

Thanks, Stuart.

Operator: Thank you. Our next question will go to line of Brent Thielman with D.A. Davidson. Brent, your line is open.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Hey. Thank you. Good morning. Had a question on MTS. I know that the resolution of protest is a difficult thing to predict, especially timing. But absent that, should we anticipate a more robust second half bookings environment than what you've seen year-to-date?

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

If – I mean, we've talked through quite carefully about the size of our pipeline, and that being a record scales today and the [ph] bids awaiting (00:46:39) award similarly. So, if the award cadence picks up, which logically it should now that the budgets are, particularly the Reconciliation budget is coming to fruition. I think it's reasonable to expect a pickup in award cadence as we head through the rest of this year. And historically, it really has been the third quarter, but my expectation is that will also lead into the fourth quarter with the [ph] Reconciliation Act (00:47:05).

Mark W. Sopp

Executive Vice President & Chief Financial Officer, KBR, Inc.

A

And Brent, a reason why we were cautious on the conversion outlook for this – impacting this year, you mentioned very specifically we assume things will unlock trending to next year. There's been a lot of change in government, particularly in the contracting offices. And people have retired, they've left for other reasons. And so despite the customer engagement at the end user level, sometimes engagements are not even possible at the contractor office level. And so, the decisions coming out reside on those people, and there's less of them. And so that's why we were prudent in our outlook this year. And eventually, we'll figure it out, and I think we'll get our fair share. But I think timing is a question mark.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

Yeah.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. Understood. And then sticking with MTS in the context of the targets and the new set of targets for 2027, I guess, could you talk a little more specifically about what we would need to see over the course of the next several quarters in support of that range? Presumably, maybe a few of these protests or all the protests go your way. NASA isn't too disrupted. I'm just trying to get a sense of what we need to see and not see in support of that?

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

I think, well, interestingly, when we look at our outlook for this year, and as we look at the CAGRs going forward, well, actually, the CAGRs to achieve our targets are coming off quite a low base with [ph] what's found in the European data (00:48:40). So that should – that gives us more confidence in terms of where we're starting from.

In terms of our ability to meet those targets, I think just conversion of the pipeline comes back exactly to what we said last time around. And if we win our fair share of what's in front of us, and we – our pipeline continues to grow because the bidding environment has not changed significantly. And when you combine that with our ability to

bring in our commercial skills, particularly from STS and international government into the changing environment commercially within the US government, I think we stand very well placed to meet the cadence we put forward, and we would not put them forward if we don't think we can meet them.

Mark W. Sopp

Executive Vice President & Chief Financial Officer, KBR, Inc.

A

I'll just add that the Reconciliation Act puts money to work quite quickly, provided all the supports there, as I mentioned a moment ago. But we're quite concentrated in our business in the RDT&E funding area, which is a healthy recipient, as you heard in my earlier remarks, same with O&M. And so our teams are pursuing more and bigger opportunities on some of the very specific initiatives that are high priority to administration. And we think we're quite – they're quite motivated to get that going quickly. We're platform agnostic. We can really bring a lot of digital capabilities together. That's a clear emphasis with our clients. And so, we're expecting that to be a successful outlook for us in the 2026/2027 period and well beyond, of course.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

A

And lastly, just to pile on a little bit is really what's happening internationally. As you've seen, there's a commitment for defense spending to rise to 5% of GDP across the European arena by 2035, with the UK leading the charge there somewhat. But also in Australia, and we're seeing that coming through in the growth that we are experiencing in International, which I'll remind you comes with higher margins and it's more commercial in nature, which suits our DNA.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Very good. Thank you.

Mark W. Sopp

Executive Vice President & Chief Financial Officer, KBR, Inc.

A

Thank you, Brent.

Operator: Thank you, Brent. There are no additional questions waiting at this time. So, I will now pass the conference back over to you, Mr. Bradie, for closing remarks.

Stuart J.B. Bradie

President, Chief Executive Officer & Director, KBR, Inc.

Okay. Thank you very much. Just to reiterate, I'll sort of leave you with some key takeaways, and thank you, again, for joining. We have completed a multi-year transformation, becoming a leader in providing differentiated, innovative and increasingly upmarket services, technologies and engineering solutions. And we're doing that increasingly at large scale and, obviously, with a global reach. And it would be remiss if I didn't say the quality of earnings is something we've talked about many times and this has been and continues to be a key focus area and you can see that coming through in the bottom line.

As you know, we serve diverse, attractive end markets, but importantly, these are aligned, we believe, with strong secular growth trends. We have amazing people, really top talent that combining deep domain expertise, which will be continually increasingly in demand, certainly with our proprietary technologies. But as you have seen from our results, not just this quarter, but for the last several years and within our outlook, we have an unwavering

focus on execution and we specialize in sort of key technologies, difficult solutions, consulting them for our customers as well as complex, harsh and mission-critical work.

We are excellent partners. That's very much part of our DNA. I think that's going to be an increasing need into the future as we look at different solutioning. We are operating in dynamic teams to solve our customers' most complex challenges. And this has resulted in recurring long-term engagements and, of course, as we said in the [ph] script remarks (00:52:44), over \$21.6 billion in backlog and options.

Our diversification, our asset-light model and disciplined capital allocations have and will continue to generate stable, predictable cash flows and compelling shareholder returns. And we have growth and margin expansion plans in flight that are bearing fruit.

Finally, we remain alert and agile as we need to be in this environment. We are monitoring the current dynamic situations across the world and taking strategic and proactive solutions at pace to ensure KBR remains well positioned to deliver for our employees, our customers, and of course, our shareholders.

So, thank you very much for joining today's call and, of course, for your interest in KBR, and we look forward to updating you again next quarter. Thank you.

Operator: That concludes today's earnings conference call. Thank you for your participation. I hope you have a great rest of your day.

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