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KBR, Inc. (KBR)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and good afternoon, everyone. Well, thank you for joining us for KBR's Fourth Quarter and Full Year 2025 Earnings Conference Call. My name is Drew and I'll be the operator on the call today. During the call, after the prepared remarks, we will have a Q&A session. [Operator Instructions] And as a reminder, we ask that you ask one question and one follow-up.

With that, it's my pleasure to hand over to Rachael Goldwait, Head of Investor Relations, to begin. Please go ahead when you're ready.

Rachael Goldwait

Vice President-Investor Relations, KBR, Inc.

Thank you. Good morning and welcome to KBR's fourth quarter and fiscal year 2025 earnings call. Joining me are Stuart Bradie, President and Chief Executive Officer and Shad Evans, Executive Vice President and Chief Financial Officer. Stuart and Shad will provide highlights from the quarter and full year 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 materially 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. The reconciliation of these non-GAAP measures to the nearest GAAP measure is included at the end of our earnings presentation.

Stuart J.B. Bradie

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

Thank you, Rachael. And good morning, everyone. I will pick up on slide 4. As we always do at KBR, I want to start with a brief Zero Harm moment. In 2025, we delivered industry-leading safety performance with our TRIR reaching an all-time low of 0.033 and zero harm days reaching an all-time high at 96%. These results really reflect strong discipline and accountability across our operations. More importantly, they speak to the culture we felt inside KBR. We focused on creating an environment where people look out for one another and where safety and well-being are part of how we operate every single day. That culture is especially important as we move through the spin, and it underpins the execution and results we'll walkthrough today. Onto slide 5. Today's call will cover the profits. First, I'll start with how we delivered our strategy in 2025.

From there, I'll touch on why we see improving momentum and visibility as we move into 2026 across both segments, including how the quality of our earnings continues to improve. I'll provide an update on the spin itself. And finally, Shad will walk through our financial performance for the year and of course, our guidance for 2026. Onto slide 6, on strategy. So, as we enter the year, I want to start with a simple message; we executed our strategy in 2025 despite a very challenging award environment across both segments. We stayed disciplined, focused on what we can control and made meaningful progress across each of our strategic pillars. Firstly, thrive and expand. In Sustainable Tech, we continue to expand globally, with particular momentum in the global south, and you've heard us say that before. We also made deliberate progress during our OpEx-facing businesses, both organically and inorganically.

And this, of course, reduces our exposure to CapEx cycles. The SWAT acquisition within our Brown & Root joint venture, BRIS, which closed in January, was a key milestone, more than doubling the EBITDA of that business. In Mission Tech, we continue to leverage contract vehicles, including recent Air Force and Space Force awards, which you'll have seen, while expanding internationally and strengthening our presence in Washington, D.C. And that's to deepen engagement with both the administration and the Pentagon. Second, to deliver innovation. Innovation remains central to our strategy. In Sustainable Tech, we launched INSITE 3.0 this quarter for the new venture with Applied, enhancing operational performance across KBR-licensed ammonia plants using physics-based AI. We also continue to advance Mura and other technologies as a long-term growth platform.

In Mission Tech, our focus on deepening customer relationships and advancing our technology roadmap is paying off. Recognition as a top 10 Australian defense contractor, the Nova Excellence Award from NASA and the recent Golden Dome SHIELD seat all reflect this progress. Post LinQuest, the establishment of a new Chief Technology Officer role and a digital design labs are strengthening our position as a true capability partner. Thirdly, drive operational excellence. Operational execution was a clear strength in 2025. We expanded margins by more than 100 basis points and generated operating cash flow for the conversion rate of 110%, delivering over \$30 million in cost savings, and expect this margin and cash performance momentum to continue into 2026.

And finally, deploy capital effectively. We delivered \$413 million in capital to shareholders in the year, and that's the highest in the last decade. Successfully integrated LinQuest and de-levered the balance sheet within a year. As we prepare for the spin, we remain highly disciplined, ensuring both companies are positioned with appropriate capital structures from day one. With that context, let's come to our segment performance, starting with Sustainable Tech on slide 7. 2025 was a challenging year for Sustainable Tech, marked by a sharp decline in petrochemical's CapEx and a pause in many green projects as customers shifted their focus towards affordability and energy security. Despite this backdrop, STS grew remarkably resilient. Margins held up well in the first half of the year, and our teams responded really quickly, pivoting towards the global south, LNG, ammonia and OpEx-driven markets where demand fundamentals remain strong.

That pivot clearly showed up in the results. We delivered strong book-to-bill in both the third and fourth quarters and exited the year with solid work under contract for 2026. Geographically, the global south was a major source of strength with wins across Iraq, Saudi Arabia, Kuwait and Singapore. In LNG, we secured both the Abadi and with Coastal Bend front-end engineering design contract, reinforcing our front-end positioning. And in ammonia, awards were truly global, reflecting the durability of our technology portfolio. We also continued to advance emerging technologies, including lithium extraction and then Hydro-PRT recycling. After ongoing commissioning challenges, I'm pleased to report they are now operating continuously, producing on-spec product, with ramp-up expected through 2026.

Now, as we look ahead, our growth opportunities in 2026 are directly aligned with these same themes. To anchor that outlook, fourth quarter book-to-bill was 1.6 times for the trailing 12 months book-to-bill of 1.2x. Backlog ended the year at \$4.2 billion, and that's up 5% year-over-year and up more than 20%, excluding Plaquemines LNG. Our near-term pipeline, excluding LNG is approximately \$5 billion, with about 80% from repeat customers showing the relationships that we have developed over time and work under contract covers roughly 63% of our 2026 guidance, putting us above normative levels for this business going into the year. With that let's turn to Mission Tech and onto slide 8. Mission Tech also faced a challenging environment, as you're well aware, in 2025, including award delays, reduced contingency activity and for us, particularly in Europe, and the impact of the government shutdown.

Despite those headwinds, MTS performed well. Revenue held up year-over-year, margins have improved, and cash performance was excellent. And this reflects a disciplined execution approach and the quality of the underlying portfolio. Strategically, we continue to move upmarket. Activity expanded with the US Space Force and Air Force Research Lab, validating the LinQuest acquisition. We secured positions on key multiple award contract vehicles and defended several important re-competes, including HHPC and Djibouti. While we did lose the COSMOS re-compete in 2025, this was at the lower end of margin returns within the portfolio. Importantly, there are no material re-compete revenues expected in 2026, reducing near-term re-compete risk.

Internationally, Australia was a standout, with approximately \$800 million in defense award contracts and high single-digit year-over-year revenue growth. While contingency activity declined in certain areas, the broader defense and intelligence portfolio performed well, particularly in missile defense, naval air, digital engineering, and in R&D. Cross-business synergy bids are becoming increasingly important, and we have several opportunities in the pipeline that reflect a similar integrated cross-business approach. Looking ahead, the full year 2026 Defense Appropriations Act have been enacted and MTS, we believe, is well-aligned with this funding. We expect award cadence to improve, particularly in the second half of the year, supported by strong bid volume and contract vehicle leverage.

To anchor that outlook, the trailing 12-month book-to-bill was 1.0 times. Backlog and options ended the year at \$19.1 billion, and that's up 15% year-over-year, with 40% funded excluding PFIs. Bids awaiting awards totaled \$17 billion, with 80% of that number representing new business. We expect to bid more than \$25 billion in 2026, and that will be up double digits year-over-year. Finally, work under contracts already covers approximately 82% of the 2026 guidance, with minimal re-compete exposure. Onto slide 9. Next, I'll provide an update on the spin-off transaction which remains an important part of our strategy to sharpen focus and drive long-term value creation for shareholders, as you're well aware. Preparations continue to progress in line with our plan and our targeted distribution is anticipated in the second half of 2026. From a readiness standpoint, we're making steady, tangible progress.

Carveout audits and pro forma financial statements are underway to support the Form 10 process. As committed, we made our initial confidential filing in late December 2025, and we currently expect to file an

amendment incorporating full year audited 2025 financials in March 2026. A similar timeline is progressing for the private letter memo with the IRS, so all on track. We're also continuing to refine the transaction perimeter to ensure operational clarity and strong stand-alone positioning for both companies. And as part of that effort, we have decided to move the Frazer Nash Consultancy business and the UK civil nuclear project portfolio into Sustainable Tech. We have provided a supplemental financial information sheet for modeling purposes, and this is accessible via the QR code. And this change has no material impact to our long-term segment growth, CAGRs, or margins.

As discussed previously, CEO and CFO recruitment efforts are underway. And in the interim, I've appointed Mark Sopp as Interim CEO, leveraging his role Spin Transition Lead. And that positions Mark to effectively serve in the capacity while the search for a permanent CEO continues. These efforts, along with the early branding initiatives to support future stand-alone companies are progressing in parallel with the broader separation work streams. Importantly, a dedicated spin transaction team continues to drive execution across the organization, really helping to minimize disruption within the operations while maintaining momentum. I think you can see that in the delivery of the 2025 bottom line results. The level of internal engagement and coordination continues to build, which gives us confidence in our ability to execute the transaction effectively.

We'll continue to keep you updated, of course, as we progress. And with that, I'll turn it over to Shad.

Shad E. Evans

Chief Financial Officer, KBR, Inc.

Thanks, Stuart, and thank you to everyone for joining us today. I'm excited to step into the CFO role, an important time for KBR. Mark Sopp built a strong finance organization and a disciplined foundation, and I'm grateful for his leadership and the opportunity to build on that work. Looking ahead, my focus is straightforward: deliver on our financial commitments, support the financing and investor milestones associated with the spin, and maintain a disciplined financial structure that advances our strategy. With that, let's turn to the fourth quarter results on slide 11. Revenues were \$1.85 billion, down \$223 million year-over-year, primarily reflecting award timing in MTS and reductions in EUCOM contingency scope. More importantly, profitability and execution were strong.

Adjusted EBITDA increased \$12 million and margins were 12.6%, up 190 basis points driven by disciplined program execution and favorable mix as EUCOM volumes decline from lower-margin work. Adjusted EPS was \$0.99, up \$0.09 year-over-year, reflecting the stronger adjusted EBITDA performance and lower share count following open market repurchases. Turning to slide 12 and our full year results. Revenues were approximately \$7.8 billion, up modestly year-over-year despite the market volatility. We delivered strong performance in defense and intelligence programs supported by the LinQuest acquisition; continued momentum in Australia aligned with its defense priorities; and sustained demand in STS across our engineering, professional services, and technology offerings.

Adjusted EBITDA increased \$100 million and full year margins were 12.4%, up more than 100 basis points year-over-year. As Stuart mentioned, this performance reflects prioritizing high-margin growth, disciplined program execution, and continued delivery on cost-saving initiatives across the business. Adjusted EPS was \$3.93, up \$0.60 versus prior year and supported by the increase in adjusted EBITDA on share repurchases, partially offset by higher interest expense and higher income taxes due to international mix in our underlying rate. That same dynamic is reflected in our 2026 ETR guidance, which I'll cover in a moment. Cash was a key highlight. Operating cash flow was \$557 million, representing 110% conversion to adjusted net income. We exited the year with strong liquidity heading into 2026.

Overall, revenues and adjusted EBITDA are within our ranges for the year and adjusted EPS and net operating cash flow exceeded the top end of our guided ranges. Turning to slide 13, I'll focus on a few financial proof points that support the progress Stuart just outlined in Sustainable Tech. As discussed earlier, the market environment shifted materially in 2025. From a financial standpoint, STS offset those headwinds through mix, geographic expansion and increased exposure with OpEx oriented and structurally stronger demand areas. That operating discipline is clearly showing up in the quality of earnings. Adjusted EBITDA has grown 16% since 2023, outpacing revenue growth and reflecting improved mix and cost execution. While margins were modestly elevated in 2025, we are on pace to meet our long-term margin target of 20% plus in 2027.

This performance was delivered alongside strong cash conversion of more than 80% and a trailing 12-month book-to-bill of 1.2 times, providing good visibility as we enter 2026. Lastly, due to the recurring nature of risk and alignment with our OpEx strategy, we plan to update our adjusted EBITDA calculation beginning in 2026 to reflect our share of unconsolidated JV operating income. Previously, BRIS and other unconsolidated JVs were reflected through JV's net income. This change improves transparency and aligns EBITDA with how we manage the business. Prior periods will not be recast as the impact is not material. Turning to slide 14, I'll focus on the financial implications of the Mission Tech progress, as Stuart just outlined. From a financial perspective, the portfolio continues to move toward higher quality of earnings, driven by mix improvements, disciplined program selection and favorable contract structures aligned to the most durable and well-funded national security priorities.

Since 2023, the integration of LinQuest, strong international execution and a more selective business development approach have supported mid-single-digit revenue growth, while improving margin quality. Importantly, that improvement has been driven by commercial acumen and contract discipline, including a greater focus on fixed price and technically differentiated work, not volume. Even with near-term headwinds from award timing and protest activity, the team remained highly selective in bids and recompetes, prioritizing returns in contract terms over scale. That discipline is showing up in sustained margin performance and a robust pipeline. Against that backdrop, the business is preparing for the same with improving economics, solid visibility and strong alignment to long-term national security demand.

Turning to slide 15, capital allocation and balance sheet discipline remain key strengths. In 2025, we returned a record \$413 million to shareholders through buybacks and dividends, and we ended the year with net leverage of 2.2 times. That reflects both strong cash generation and disciplined deployment. Looking ahead to 2026, our priorities remain unchanged. We're committed to maintaining an attractive and stable dividend through the spin transaction. And to that end, our board approved an annual dividend of \$0.66 per share or \$0.165 per quarter for 2026. We also continue to invest selectively where returns are compelling. In January, we invested approximately \$115 million to fund our proportionate share of the SWAT OpEx acquisition within BRIS, a strategic transaction that enhances resilience to CapEx cycles and supports our OpEx expansion.

As we execute this investment and absorb typical first quarter cash uses, including incentive compensation payments, leverage may trend up modestly in the first half of the year before coming back down below the targeted 2.5 times level as cash builds throughout the year. Ahead of respective investor days, which we plan to conduct before the spin, each segment will assess its capital deployment priorities based on its stand-alone profile. I'll now turn to slide 16 and our fiscal 2026 guidance. We're providing full year outlook for consolidated company to establish a clear baseline, with stand-alone outlooks to be updated to progress towards the planned spin in the second half of 2026. With that in mind, for fiscal 2026, we are guiding revenues in the range of \$7.9 billion, \$8.36 billion; adjusted EBITDA of \$980 million to \$1.04 billion; adjusted EPS of \$3.87 million to \$4.22 million and adjusted operating cash flow of \$560 million to \$600 million.

At the midpoint, this implies approximately 4% year-over-year growth across all key metrics. We expect transition costs related to the spin to be approximately \$140 million to \$180 million, inclusive of onetime IT and capital costs. To ensure transparency around ongoing performance, we will introduce an adjusted operating cash flow and an adjusted free cash flow metric in 2026 that add back spin related cash outflows, allowing investors to better assess the core cash generating capabilities of the business. From a modeling perspective, the guide assumes low double-digit growth in STS at our normative long-term margins of 20% plus. MTS is expected to grow at low single digits, also at a normative margin of 10% plus, which we expect to continue to improve over time. Capital expenditures are expected to be in the range of \$40 million to \$50 million for the year.

Our projected effective tax rate is 26% to 28%, higher than the current year, and as I mentioned earlier, primarily reflecting a greater mix of work in the global south. Estimated adjusted share count is 127 million, which is exactly where we exited 2025. We expect revenues and adjusted EPS to be weighted approximately 46% for the first half and 54% for the second half of the year. For modeling purposes, we expect Q1 2026 to be largely in line with Q4 2025. And on a recast basis, we anticipate moderate sequential growth in MTS as EUCOM is at its base activity levels and partially offset by seasonal sequential declines in STS. As a reminder, we will be comping against elevated EUCOM contingency in the first two quarters of 2026, which is roughly \$60 million to \$70 million per quarter.

Our guidance includes key assumptions that are worth highlighting given the current political and economic environment. First, we assume the resolution of outstanding protests in the first half of the year with award cadence in Mission Tech improving as the year progresses. Second, we assume that all material programs we currently support remain in place. Should that change materially, we will, of course, update as appropriate. Third, we assume modest improvement in interest rates in the second half of the year and stable foreign exchange rates relative to current levels. In closing, our 2026 guidance reflects a disciplined view of the current environment. We enter the year with solid work under contract, strong growth momentum and a highly committed global team.

And with that, I'll turn it back to Stuart.

Stuart J.B. Bradie

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

Thanks, Shad. I'm on slide 17 with some key takeaways, and I'll close with four key messages. First, we executed with discipline in a challenging environment. Despite pressure across awards and funding, we delivered results in line with our updated guidance, we expanded margins and generated strong cash and returned that cash at record levels to shareholders. That performance under pressure reflects the strength of our operating model and the quality of the people inside KBR, our teams. Second, both segments exit 2025 with improving momentum and of course, visibility. In Sustainable Tech, the portfolio is better aligned to structurally stronger demand, while the Mission Tech margin discipline, pipeline strength, funding, visibility, positioning the business well as award cadence improves into 2026.

Third, the quality and the durability of our earnings continues to improve. Across the portfolio, we are being more selective, with continuing moving upmarket and leaning into innovation and digital differentiation. That focus is really driving better mix, more resilient margins and stronger cash generation over time. And finally, our spin-off prep is advancing as planned. We're making steady progress on separation readiness, capital structure planning, and leadership and operational clarity, all with the goal of creating two focused, well-positioned stand-alone companies and of course delivering long-term value for our shareholders.

With that, I'll turn it over to the operator to open the call for Q&A. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. With that, we'll start today's Q&A session. [Operator Instructions] Our first question today comes from Tobey Sommer from Truist. Your line is now open. Please go ahead.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

Thank you very much. I was wondering if you could describe to us what the pipeline in STS is for sizable projects with Plaquemines closing out probably next year. Just to give us a sense for how we may be able to fill that hole and even grow. Thank you.

Shad E. Evans

Chief Financial Officer, KBR, Inc.

A

Thanks, Tobey. Not an unexpected question. In terms of the book-to-bill in Q3 and Q4, I think you've seen the performance has been impressive across the spectrum. That includes technology and obviously the broader capability set in the Middle East and that's coming through and particularly in the OpEx area, which we feel is a strategic growth avenue we want to get after due to its – due to the long-term contract nature of that giving sort of visibility into earnings over time. We've started this year and Q1 very strongly again in bookings in STS. So, again, I think directionally that's a very positive thing to see and obviously to disclose today. In terms of the broader pipeline, it's – we've got a global business as you're well aware. We see significant opportunity across the globe and across our capabilities set, and that includes ammonia and technology. It includes the broader technology set.

I talked a little bit about Mura in my prepared remarks also. They are now running well. They've come through their 72-hour test, products on-spec, and have actually sold that product already. So, we'll see that ramp up through the course, and they've got a number of projects in their pipeline as well which, both as an investor and executer and technology provider, we'll take advantage of. In the broader LNG area, which is one aspect of our business, is not the business, I would say that we've got obviously a lot going on in Abadi. We've got Coastal Bend front-end design also ongoing, and we've got a number of others that we can't tell you about today, unfortunately, but we're looking at as we move through this year. I think the other key takeaway here is that many have looked at the equity and earnings line and see not really just Plaquemines coming through.

We talked a few quarters ago about the importance we felt BRIS would be delivering in that area over time. We really saw that outperformed as we headed into the end of this year and have a very strong book-to-bill themselves. And then, with the addition of SWAT, we're obviously more than doubling that EBITDA contribution, which is why we're going to be showing you that more transparently going forward. And that all comes through the equity and earnings line that will start to hopefully get people thinking a little bit differently about the quality of earnings and the longevity of that earnings coming through the equity and earnings line. So hopefully, that gives you a rounded view of that.

Tobey Sommer

Analyst, Truist Securities, Inc.

Q

It does. Thank you very much. If I may ask my follow up on the MTS side backlog and options growth, pretty substantial in the mid-teens, and as well as the sizable awaiting award category. Maybe you could give us some

color as to the drivers of the 15% growth in backlog as well as the more exciting areas where you've got bids awaiting award.

Stuart J.B. Bradie

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

A

Yeah. Thanks, Tobey. Obviously, we've announced a number of wins. We talked a little bit about HHPC and Djibouti which come through with a number of year options in them, which helps in that arena. And more recently and very excitingly, the sort of Space Force and Air Force awards in the sort of higher-end digital area, starting to see some momentum around that. But just the broad portfolio internationally has been terrific as you've – as we've talked about again in the prepared remarks. So, that's really the story coming into the end of this year. As we look out into next year, obviously we've got the work that's under protest. And I know Shad talked about that in his prepared remarks, and that's quite exciting because it takes us to new customers as well in terms of broadening our reach and really what we're doing in missile defense, what we're doing with Space Force, et cetera.

And obviously, the award of the SHIELD IDIQ really position us well for workflows under the sort of Golden Dome program also. And we're really seeing tangible wins in that arena as we've press-released already, so that sets us up nicely for the future. But I'm also excited about what's happening internationally and it's a piece of our business that everyone sort of doesn't really talk about enough with Australia growing significantly, continually moving upmarket with an enormous backlog given its successful wins last year, and really the UK as well with increased defense spending happening across not just in the UK but the broader Europe arena really positions us well going into 2026 and actually well beyond, of course. So, I think that, again, gives you a sort of overall picture. We're very excited about the defense and intel portfolio in the US. The work under protest is a lot of that is in R&S segment, of course.

And then, we obviously have the international portfolio that's performing extremely well and I reiterate at better margins just because of its commercial nature.

Operator: Our next question comes from Mariana Perez Mora from Bank of America. Your line is now open. Please go ahead.

Mariana Perez Mora

Analyst, Bank of America

Q

Good morning, everyone. So, my first question...

Stuart J.B. Bradie

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

A

Hi, Mariana.

Mariana Perez Mora

Analyst, Bank of America

Q

...to STS, and I think we and all investment community will welcome more clarity on the EBITDA and the contribution from the joint ventures. But like, in the meantime, how should we think about Plaquemines? For how long it's going to contribute at these levels? How should we think about Lake Charles or at least like Energy Transfer parting and canceling that project and the impact to that contribution? And if we think, I don't know, three years from now, what are the opportunities you guys have to maintain that level of contribution from joint ventures?

Stuart J.B. Bradie

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

A

That's a good strategic question and probably one best answered more fulsomely at the Investor Day, Mariana. But ultimately, as we said before, the contribution from Plaquemines will run consistently through this year and into early next year. The increased focus on what we're doing around BRIS and the addition of SWAT and we're looking at obviously more organic and inorganic growth in that arena to build out that portfolio. And we'll talk about that more as we get through the rest of the year. And that bit of the business is performing really, really well. And so, that will be an increasing part of the equity and earnings contribution, which is why we want to be more transparent around it, to give investors more confidence on the continued equity and earnings performance.

But also, it's on top line growth and top line growth and the associated EBITDA generation coming from that portfolio. And I think the book-to-bill of 1.6 times again really demonstrates the momentum that we're having, particularly in the global side, but ultimately across the portfolio and really sort of delivering, I guess, confidence of future earnings. And that's why, we're confident on the sort of double-digit growth on the revenue line for STS going forward. So, I think, again, more to come on that at Investor Day, we'll get more into sort of the granular details there. But strategically, that's where we're heading.

Mariana Perez Mora

Analyst, Bank of America

Q

Thank you. And my follow up on MTS, you talk about Australia. You have been discussing that for a couple of quarters, how strong it is. And now you talk about the UK. How is the award environment in the UK in general going? Like, what is your book-to-bill? How meaningful are the opportunities in the near term and what are the expectations for growth there?

Stuart J.B. Bradie

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

A

Yeah. Good question. 2025 was a slow award cadence in the UK due to the typical defense reviews. And US speak appropriations and really sort of pointing at times in this case to where the spend is going to be. That process is now behind us, and we can see clear spend priorities going into 2026, which is why, we are feeling pretty good about where we are and where we're positioned in the UK. Again, more to come and we'll get more granular in the Investor Day. But I think directionally, you can sense that we've come through what is a flat year in the UK and now moving into a growth cycle within our portfolio.

Mariana Perez Mora

Analyst, Bank of America

Q

Thank you so much.

Operator: Thank you. Our next question comes from Ian Zaffino from Oppenheimer. Your line is now open. Please go ahead.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Hi. Great. Thank you very much. Question would also be on MTS. Can you maybe give us the components of the guidance there? And I imagine defense and intel is very nicely up above kind of the guidance, but what should we expect maybe for readiness, sustainment and any other kind of color you could give us on that? Thanks.

Stuart J.B. Bradie

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

A

Yeah. Quite right. Defense and intel is, as Shad talked about, science and space is down due to pressure on NASA budgets, as you would expect. So that's contained within the guide. And then, we've got the R&S and the protests that are more aligned to R&S as we look through the course of the year. So, assuming that they are successful, we'll grow R&S nicely as well as the international portfolio we talked about. And it's also worth saying that, as I said in my prepared remarks, we did lose some of the recompetes, which we're at the lower end of our margin performance. But in terms of the guide, although many of – not many, some of them are under protest, a couple of them are under protest. We have not assumed that we will be successful in those protests in the guide. So we've taken a fairly firm view that, if that – if we are successful, that would be upside.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks. And then, you made a comment about doing M&A. How should we think about that? Is this something that's going to wait till after the spin, pre-spin? I don't want to jump the gun on the Investor Day, but how do you think about separating your businesses? Is it going to be 100%? Are you thinking 80%? Just to get our arms around, how you're thinking about capital allocation, pre and then also post-spin. Thanks.

Stuart J.B. Bradie

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

A

Yeah. No. Thanks. So, our statements that we made when we announced the spin still hold. The – in terms of the leverage, where the net leverage we're expecting to come out of those businesses is circa 2 times on STS and circa 3 times on MTS, which is well within market norms. We might be a little bit north or south of that, but we're not going to be far away. So, those are good numbers to work from today. In terms of – we've got some firepower, of course, as we go through the year to achieve those leverages. And if we find accretive M&A, we don't want to stand still. And I think we've proven that with the acquisition of SWAT to really advance our strategy and the sort of long recurring cycle of OpEx type contracts and our ability to expand in areas of strategic importance.

So, we won't get over our skies. We won't really sort of – unless there's some significant transformational thing in the middle of the spin, which would be highly unusual. But ultimately, these will be fairly modest, but accretive and strategic acquisitions. We don't want to standstill in this period as we've proven through the SWAT acquisition, which is a highly accretive deal for us.

Shad E. Evans

Chief Financial Officer, KBR, Inc.

A

Yeah. And maybe just to build on that, Ian. On deployment, the year typically begins, as you know, with several funded in cash commitments around annual incentives and dividends. And this year, we'll also be incurring some spin related transition costs as well. And so, when you combine those with the strategic investment that Stuart said at the outset, with the normal capital expenditures, they effectively consume a lot of the free cash flow in the first part of the year. So, as the year progresses, we will of course continue to assess opportunities to deploy any excess cash, obviously in the most effective manner in close consultation with our board. But our focus really is, as we said all along, is making sure we're setting both of these businesses up and really strong balance sheets out of the gate.

Operator: Our next question comes from Jerry Revich from Wells Fargo. Your line is now open. Please go ahead.

Kevin Uherek

Analyst, Wells Fargo

Q

Hey, this is Kevin Uherek, on for Jerry. Just had a question on STS. Would it be possible if you could rank order the growth outlook by end market in 2026?

Stuart J.B. Bradie

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

A

I think that really is one for Investor Day. We are – we've got – we've said this before, several avenues of growth. We're expanding our footprint in Iraq. We announced major wins there recently. We're expanding our footprint in Saudi Arabia across – both in different areas of the market. We, of course, we picked up the Coastal Bend LNG feed and the body frontend design and LNG technology continues to perform. It's difficult to give you a point estimate in that right now because of just of timing. But I would say the way the portfolio performs, double-digit growth is the way to think about it at the consolidated level. We'll be obviously – as a stand-alone STS business, we'll be digging into this in more detail when we get to Investor Day.

Kevin Uherek

Analyst, Wells Fargo

Q

Got it. Understood. And then, on the Mission Solutions piece on EUCOM cadence, does fourth quarter represent the run rate in activity or should we expect a step down in 1Q?

Shad E. Evans

Chief Financial Officer, KBR, Inc.

A

Yeah, Kevin, it does. And so, I'll remind you, though, that the first and second quarters of 2026 have a bit of a tough comp. \$60 million to \$70 million is what I'll call elevated levels as that been through down and is now at its steady run rate coming in 2026.

Operator: Our next question comes from Adam Bubes from Goldman Sachs. Your line is now open. Please proceed.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Q

Good morning. In MTS, margins for the full year 2025, I think were 10.4%. And it sounds like mix is improving there. So, can you just expand on the puts and takes on the margin outlook for MTS embedded in that 2026 guide?

Shad E. Evans

Chief Financial Officer, KBR, Inc.

A

Yeah. So happy to take that, Adam. Despite some of the macro headwinds that Stuart pointed out, I think operational performance throughout 2025 is really strong and as you said, resulted in 10.4% margin, which again is in line with our long-term expectation for this business. And really, I think reflective of the profit first business development mindset within that organization. While we do hope to improve margins over time as we continue to see mix of that business move towards more fixed price work, we've not assumed any uplift in 2026. And so, it's flat sequentially from the 2025 run rates.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Understood. And then, you've talked a little bit about today increasing mix of recurring OpEx in digital solutions. Is there any way to contextualize what percent of revenues today is OpEx driven and where you think that can head over time?

Stuart J.B. Bradie

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

A

So again, I think we – obviously know at Investor Day there, sorry, I keep saying that, but obviously that's something on our mind. But that's part of the reason we are sort of showing more transparency around the OpEx business in BRIS. We do have an OpEx facing business that we own 100% in the international arena, and we'll bring that altogether when we meet later in year for that Investor Day to show you just the opportunity there, we'll describe some of the long-term nature of those contracts, we'll give you an overall margin profile of that particular area and certainly within a range and what the outlook is. But we're excited about that. Strategically, we do think that assets across the world, of course, have increased significantly over this last decade.

But the level of digital solutioning and thinking through how you can help your customer, keep the plant up and make it more efficient and do predictive analytics that support that is exciting and we're right in the middle of all that. So, I do think it's – as assets age there's going to be more volume of business in this area and obviously as the demand is increasing, and we feel we're very well placed over time to take advantage of that. And I think for investors, I think the strategic upside of that is the contracts are longer-term in nature. There's greater visibility of earnings and cash across that book of business. So, that's directionally where we're heading, but more to come again on Investor Day.

Operator: Our next question comes from the line of Sangita Jain from KeyBanc Capital Markets. Your line is now open. Please go ahead.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you. Good morning, Stuart and Shad. If I can ask two questions on MTS? My first one is are you still exploring a sale of that segment? Can you speak to the process if you are and if that's still an option as you move towards the spin?

Stuart J.B. Bradie

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

A

I mean, you know I can't answer that question. So, it's – I mean, we're committed to shareholder value. We've said that many times, it's 100% true. We're going through this spin process to prove that out and demonstrate that. We're open to approaches, we're open to anything that will enhance shareholder value. That's all I can really say at this point.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. And then on the MTS awards in protest, can you provide a little more detail on how many awards you're protesting and if any of them are outsized versus the other and also the timing that you're anticipating on those resolutions?

Stuart J.B. Bradie

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

A

Yeah. These are fairly in the public domain. The Mission Iraq award is circa \$1 billion, and that's with the State Department. Then, we have a classified program called K2A that's in the similar zip code. And then, there's some – we did get one protest in our favor which was the prepositioned stock in Europe, so that's now running through the numbers. And that's the key ones at the moment. And obviously, we are protesting the COSMOS loss and the Diego loss as we speak. So, again, I would reiterate those are not in our numbers, the latter two. So, that's kind of where we're at today.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you, Stuart.

Operator: Our final question comes from Andy Kaplowitz from Citigroup. Your line is now open. Please go ahead.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, everyone.

Stuart J.B. Bradie

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

A

Morning, Andy.

Shad E. Evans

Chief Financial Officer, KBR, Inc.

A

Morning.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Stuart, can you talk a little bit more maybe about impacts of AI on KBR? I think you mentioned it briefly in prepared remarks, but how do we think about the mix between software and services in MTS? I mean, you mentioned digital and sort of the growth there. I think there's quite a few security and regulatory barriers that should protect your business versus AI. But maybe you could elaborate on how you think about AI's impacts on KBR's businesses?

Stuart J.B. Bradie

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

A

Yeah. We talked a little bit about this before, I think, in last quarter that I think there's a number of companies that created AI departments, et cetera. And I think they probably spent a lot of money with not a lot of game, and we've been very disciplined around how we approach this and we very much look at use case solutions that actually drive an ROI. We've got a number of activities inside MTS that are funded by government, as you would expect, as we look at that from an R&D perspective. And that hangs off the back of our digital engineering labs that we press-released recently and talked a little bit in the prepared remarks which are gaining good traction because of the speed to market of R&D projects, et cetera, as you would expect.

More in the STS world, again, looking at very strong use cases around accelerating engineering, making sure there's checks and balances within engineering that avoids human errors that speed up progress. But at the same time, looking at how we operate facilities across the world, how our customers operate facilities, and using particularly digital twins and applying AI and machine learning to really sort of draw data and get trending over time to know what good looks like and make sure that operators can intercede at the appropriate time or maintenance crews can intercede at the appropriate time. So it's a multi-faceted approach, but ultimately it's driven by use case ROI. And we put quite a bit of front end effort into that, Andy, rather than just saying AI is good and just running at it. We've been quite disciplined. And that's on the front of office.

I think in the back of office, increasing use of bots to drive efficiency and decrease human error, keep our SG&A in check or reduce it, in fact, over time. We're rolling out Microsoft Dynamics across the STS portfolio which is really the forefront of a digitized ERP because our project controls, which gives us all the project data, hangs off that and we can look at things real-time and start to make real-time decisions on commercial execution. And we've also got digital procurement hanging off the back of that with a similar upside. And so, I think that's all digital project execution philosophy underpinned by really a very modern and digitally-enabled ERP is going to stand us in really good stead as we come out of the spin. So, I think it's multi-faceted. This front of office driven by use case, this back of office again driven by use case but obviously with different drivers.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

And Stuart, you just mentioned it. But like when I looked at the release for STS margin, it mentioned ERP and so we always think about sort of the ERP implementation as I guess a risk factor, but you've got over 20% margins again for 2026. So, how do you think about STS margins? Are they kind of going to be consistent here over the next few quarters and do expect improvement in 2026 versus 2025?

Stuart J.B. Bradie

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

A

Yeah. Quite right on the ERP. It's typically a risk, but our teams have done a fantastic job. We've rolled out Dynamics just to be fully transparent. We did a pilot in Singapore that went wild, we rolled out in Australia, added more functionality, went back to Singapore, increased their functionality, rolled out in India, rolled out in the UK and now we're looking at how we roll corporate out in the US and then we'll move to the Middle East. So, I think we've proven that we can roll this out without blowing out, which is always the risk. So, hats off to our teams and sort of managing the execution and the implementation. In terms of margins across STS, I think we'll just stick with our statement. Andy, that is 20-plus percent across the portfolio. And as you've seen, we have done – as we – we are prudent in how we account for things.

And as we close our projects, you will get ups in certain months. But I think over the piece, the portfolio performance is 20-plus percent. And I think that's a good measure to stick with.

Operator: Thank you. With that, we have no further questions in the queue, so I'll hand back over to Stuart Bradie for some closing remarks.

Stuart J.B. Bradie

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

Thank you. Thank you very much. So just a few final thoughts. I think as we discussed on the call, 2025 started off as challenging a year as we've seen in many. But I think it really underscores the strength of the KBR portfolio,

our geographical reach being truly global and understanding each of the countries and of different drivers is a real plus, a very diversified customer base. And that really drove a lot of – a true lack of concentration risk and being agile both in terms of how we do business and our business model that gives both Mission Tech and Sustainable Tech real resilience. And I think that came through in the – particularly in the bottom line and the cash performance through the course of the year. So, despite external noise, we did execute on our strategy and we did so with discipline. And that's really about our people. The quality of our people and the commitment of our people is unbelievable. My hats off to them.

And so, while we face revenue headwinds, margins did expand, cash was strong, and that really, really reinforces the underlying health of the product portfolio. So, as enter 2026, we've got a solid foundation, both businesses strong – work under contract and as we discussed on the call, a strong pipeline. So, I think we're really well positioned in both businesses as we head towards the spin and as we enter 2026.

So, thank you again for joining today's call. I would welcome Shad and Rachael officially to the team in this forum and obviously we'll be talking soon. So, thank you very much.

Operator: Thank you. That concludes today's call. You may now disconnect your lines. Thank you for joining.

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