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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day and welcome to the RTX first-quarter 2026 earnings conference call. My name is Lateef, and I will be your operator for today. As a reminder, this conference is being recorded for replay purposes.

On the call today are Chris Calio, Chairman and Chief Executive Officer; Neil Mitchill, Chief Financial Officer; and Nathan Ware, Vice President of Investor Relations. This call is being webcast live on the internet, and there is a presentation available for download from RTX's website at www.rtx.com.

Please note, except where otherwise noted, the company will speak to results from continuing operations, excluding acquisition, accounting adjustments, and net non-recurring and/or significant items, often referred to by management as other significant items.

The company also reminds listeners that the earnings and cash flow expectations and any other forward-looking statements provided in this call are subject to risks and uncertainties. RTX SEC filings, including its Forms 8-K, 10-Q, and 10-K, provide details on important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements. (Operator Instructions)

With that, I will turn the call over to Mr. Calio.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Thank you, and good morning, everyone. Before I get into our results, I want to acknowledge the ongoing situation in the Middle East and express our hope for a sustained resolution.

Let me now shift to the quarter. We delivered very strong performance to start the year, driven by continued execution enabled by our CORE operating system and a consistent focus on productivity across RTX.

Starting with the top line, adjusted sales were \$22.1 billion, up 10% organically with growth across all three channels. Adjusted EPS of \$1.78 was up 21% year over year, driven by a 14% growth in segment operating profit. And free cash flow of \$1.3 billion was a solid start to the year and up \$500 million from Q1 last year.

On the orders front, demand for our commercial and defense products and services remains robust. Our book to bill in the quarter was 1.14 and our backlog is a record \$271 billion, up 25% year over year, with strong commercial and defense awards in the quarter.

On commercial, our backlog is up 30% year over year with strength across both OE and aftermarket. This includes some notable GTF wins, including Vietjet Air, which selected the GTF engine to power an additional 44 aircraft. And recently, Finnair announced their intention to purchase up to 46 GTF-powered Embraer E2 aircraft.

On the defense side of the business, we saw significant awards across all three segments, highlighting the strength of our product offerings. At Pratt, the military business was awarded over \$3 billion for F135 Lot 19 production. Collins booked close to \$3 billion of awards, including \$1.7 billion for mission systems capabilities and \$400 million for avionics equipment supporting multiple platforms. And Raytheon booked \$6.6 billion of awards in the quarter, including over \$600 million to supply the Netherlands with Patriot equipment and over \$400 million from the U.S. Army for our Lower Tier Air and Missile Defense Sensors.

In addition, we're working closely with the Department of War to accelerate munitions production and are pleased with the progress to date. As we previously announced, Raytheon signed five landmark framework agreements with the Department for critical munitions, including Tomahawk, AMRAAM, and the Standard Missile family.

These agreements are a significant step forward in the Department's transformation initiative, and they're vitally important for national security. Once finalized, these agreements would provide firm demand signals for RTX and our suppliers to invest and ramp production well above existing rates over the next decade. This increased production will primarily occur at sites in Tucson, Arizona; Huntsville, Alabama; and Andover, Massachusetts, where we've already invested nearly \$900 million in capex over the last three years to expand capacity at these locations.

We will continue to make significant additional investments going forward to advance production capabilities and add new manufacturing lines to support these agreements. And as we said, the agreements incorporate a collaborative funding approach to preserve upfront free cash flow, and they represent good long-term business for us.

So a very strong start to the year. I know everyone is looking to understand how we're thinking about the end markets as we look ahead, so let me provide an update on the operating environment as we see it today. I'll start with commercial aerospace.

Like all of you, we're closely monitoring global events. While the environment is dynamic right now, the underlying demand for our OE products and aftermarket services remains durable. Commercial OE in the first quarter was in line with our expectations. We expect continued production ramps across multiple platforms throughout the remainder of the year.

In Q1, we saw solid RPK growth despite the disruption in the Middle East. And aircraft retirement rates also remain below historical levels, with V2500 retirements in line with our expectations. Of course, regardless of any near-term volatility, this is a long-cycle business, so we assume RPK growth will continue and the demand for new aircraft to remain strong. So based on what we see today, we're not making any changes to our commercial outlook for the year, but will, of course, be actively monitoring the situation.

On the defense side, the current landscape clearly underscores the need for munitions depth, integrated air and missile defense technology, and more advanced capabilities to counter evolving threats, such as our Coyote Counter-UAS system. As seen in the President's budget request, we expect these priority areas to see significant funding increases in the 2027 U.S. defense budget and other supplemental funding packages. Our products across RTX are well positioned to support these needs with our battle-tested systems and munitions serving as the backbone of many U.S. and allied defense architectures, including franchise programs like Patriot, GEM-T, NASAMS, AMRAAM, Tomahawk, and the F135.

So given our first-quarter results and the strength we're seeing in our defense business, we're raising our full-year outlook for adjusted sales and EPS and maintaining our free cash flow outlook. Neil will take you through the details in a few minutes.

Operationally, our focus will remain on executing our backlog, driving increased output, and innovating to bring new capabilities to market. Let me highlight on slide 4 some of the progress we're making across RTX on these fronts, starting with our focus on operational execution.

On the GTF program, the fleet management plan, including our financial and technical outlook, remains on track. PW1100 AOGs were down around 15% compared to the end of last year; we expect this downward trend to continue. As we've said before, the key enabler of this reduction is MRO output, which was up 23% year over year for the PW1100, on top of the 35% growth we saw in Q1 of last year. Consistent with our prior comments, we will continue to optimize the allocation of material between OE and aftermarket to ensure the health of the overall fleet and balance all of our customers' needs.

On the OE front, GTF shipments were in line with our expectations for Q1, and we continue to expect mid to high single-digit delivery growth for the year. During the quarter, GTF-powered aircraft surpassed 2,700 deliveries, with Pratt powering about 45% of the A320 deliveries to date, ahead of our roughly 40% sold program share.

Also of note, the GTF program achieved 10 years in service in the quarter. The engine now has over 50 million flight hours with a backlog of about 8,000 engines, and we recently received aircraft certification for the GTF Advantage, keeping us on track for entry into service later this year. The Advantage incorporates a decade of learning that will deliver a step change in performance and time on wing for our customers.

We continue to leverage our CORE operating system, digital solutions, and investments in automation to drive productivity and deliver on our commitments. For example, we saw further progress on munitions output at Raytheon in Q1, with total deliveries up over 40% year over year, building on the increased production we drove in 2025.

With respect to our automation efforts, Pratt's MRO facility in Singapore has developed industry leading robotics that assemble High Pressure Compressor rotors, delivering 100% first pass yield and reducing assembly time by 50%. And the team is implementing further automation of assembly and engine core stacking for the Low Pressure Compressor. This type of investment has supported an 80% increase in output at the facility over the last two years, and we're actively deploying these capabilities across our MRO sites.

We also remain on track to connect 60% of our annual manufacturing hours to our proprietary data and analytics platform by the end of this year. We're harnessing this data from our connected products and factories to improve the speed of decision making and operations.

We've integrated our commercial installed base into this platform to enhance predictive fleet maintenance. For example, the Wheels and Brakes team at Collins is using real-time data to better understand service life and improve inventory management, resulting in cost reduction across its large portfolio of long term pay-by-the-landing service agreements.

Moving now to innovation and future growth, we're making focused investments to meet the growing end market demand. Specific to capacity, we made progress on expansion efforts across all three segments in the quarter.

Pratt announced a \$200 million investment to expand capabilities at our Columbus, Georgia, facility that supports both commercial and military engine programs, including the GTF and F135. This investment will increase output of critical parts, including rotating compressor and turbine disks to support growing OE and MRO demand.

Raytheon completed a \$115 million expansion of our Redstone Missile Integration Facility in Huntsville. This investment will increase the facility's munitions capacity by over 50% and support multiple systems, including the Standard Missile family and associated framework agreements. And Collins launched a capacity expansion effort that will support the recently awarded FAA contract for radar systems and other air traffic modernization opportunities.

We also achieved significant milestones within our cross-company technology roadmaps in the quarter. Raytheon successfully demonstrated a non-kinetic variant of the Coyote effector during a U.S. Army test event. This is a lower-cost, counter-unmanned aircraft system that can be recalled after completing its mission and redeployed for additional engagements. This innovation addresses a growing need for our customers and builds upon the battle-tested kinetic variant of Coyote in use today to defeat drone threats.

In AI and autonomy, Collins completed a successful flight test of its mission autonomy software for the U.S. Air Force's Collaborative Combat Aircraft program. This demonstration highlights the strength of Collins' open architecture autonomous software to deliver enhanced capability across various platforms.

And in propulsion, our cross-company team consisting of Pratt, Collins, the RTX Research Center, and RTX Ventures is making significant progress in hybrid electric solutions. In the quarter, the team successfully operated the propulsion system and battery pack for a turboprop demonstrator at full power. This technology is expected to drive a 30% improvement in fuel efficiency for regional aircraft. It combines a thermal engine from Pratt, a 1-megawatt electric motor from Collins, and a 200-kilowatt battery system supported by RTX Ventures. So overall, I'm pleased with the progress we're making on the innovation front.

With that, let me turn it over to Neil to take you through the first quarter results and the outlook in some more detail. Neil?

Neil Mitchell - RTX Corp - Executive Vice President, Chief Financial Officer

All right. Thanks, Chris. I'm on slide 5.

As Chris already mentioned, we had strong financial performance to start the year. In the first quarter, adjusted sales of \$22.1 billion were up 9% on an adjusted basis and up 10% organically. This top line organic growth was driven by strength across all three channels, with commercial OE up 6%, commercial aftermarket up 14%, and defense up 9%. Adjusted segment operating profit of \$2.9 billion was up 14% year over year, driven by drop-through on higher volume, favorable defense mix, and improved productivity.

Specifically on productivity in the quarter, we saw continued progress across the company on cost reduction and efficiency improvement, growing organic sales and segment profit double digits with only a 1% increase in headcount. We also drove 70 basis points of consolidated segment margin expansion in the quarter with contributions from all three segments, more than offsetting the year over year headwind from tariffs.

Adjusted earnings per share of \$1.78 was up 21% from the prior year, driven by strong segment operating profit growth and lower interest expense. Adjusted earnings per share also benefited by about \$0.08 year over year from a lower effective tax rate, which was principally driven by higher stock-based compensation deductions.

On a GAAP basis, earnings per share from continuing operations was \$1.51 and included \$0.27 of acquisition and accounting adjustments. And free cash flow of \$1.3 billion was a solid start to the year and included approximately \$170 million of powder metal related compensation. Lastly, we paid down \$500 million of debt in the quarter and are tracking to our full year deleveraging expectations as we further strengthen our balance sheet.

Let's turn to slide 6, and I'll provide a few details on our updated outlook for the full year. As Chris mentioned, based on our strong first quarter performance and expectations around continued defense strength, we are updating our full year outlook.

On the top line, we're raising our full-year adjusted sales outlook by \$500 million to a new range of \$92.5 billion to \$93.5 billion, up from our prior range of \$92 billion to \$93 billion, driven by the performance we saw at Raytheon in the first quarter as well as slightly lower sales eliminations for the year. We continue to expect this to translate to between 5% and 6% organic sales growth for the full year at the RTX level.

Breaking this down further, we continue to expect commercial OE sales to grow mid-single digits and commercial aftermarket sales to grow high-single digits for the full year. And given the increase at Raytheon, we now expect defense sales to grow mid to high-single digits for the full year, up from our prior expectation of mid-single digits.

On the bottom line, we are increasing our adjusted earnings per share outlook \$0.10 of both the low and high end of the range. This increase is driven by approximately \$0.05 of drop-through on the higher sales at Raytheon, with the rest coming from a couple of below-the-line items, including lower interest expense.

We now see adjusted EPS of between \$6.70 and \$6.90 for the full year, up from our prior range of \$6.60 to \$6.80. On free cash flow, we remain on track to our outlook of between \$8.25 billion and \$8.75 billion for the full year.

With that, let me hand it over to Nathan to take you through the segment results for the quarter. Nathan?

Nathan Ware - RTX Corp - Vice President, Investor Relations

Thanks, Neil.

Starting with Collins on slide 7. Sales were \$7.6 billion in the quarter, up 5% on an adjusted basis and 10% organically, driven by strength across all channels.

Adjusting for divestitures by channel, commercial OE sales were up 15%, driven by higher volume on narrow body and wide body platforms. Commercial aftermarket sales were up 7%, driven by a 15% increase in provisioning and an 8% increase in parts and repair, partially offset by a 3% decline in mods and upgrades. Recall, mods and upgrades were up 18% in Q1 2025. Defense sales were up 9% versus the prior year, driven by higher volume across multiple programs.

Adjusted operating profit of \$1.3 billion was up \$71 million versus the prior year, driven by drop through on higher commercial and defense volume and lower R&D expense. This was partially offset by unfavorable commercial OE mix, the impact of divestitures completed in 2025, and higher tariffs across the business. In the quarter, Collins expanded margins by 10 basis points year over year despite a 130 basis point headwind from tariffs.

Turning to Collins' full year outlook, we continue to expect sales to grow mid-single digits on an adjusted basis and high-single digits organically, with operating profit growth between \$425 million and \$525 million versus 2025.

Shifting to Pratt & Whitney on slide 8, sales of \$8.2 billion were up 11% on an adjusted basis and 10% organically, driven by strength in commercial aftermarket and military. Commercial OE sales were in line with expectation and down 1%, driven by lower engine deliveries. As Chris said, we continue to expect mid to high single-digit large commercial engine delivery growth for the full year.

Commercial aftermarket sales were up 19%, driven by higher volume, including heavier content, in both large commercial engines and Pratt Canada. In military engines, sales were up 7%, driven by higher F135 production volume.

Adjusted operating profit of \$711 million was up \$121 million versus the prior year, driven by drop through on higher commercial aftermarket and military volume, partially offset by higher operational costs, including tariffs and higher SG&A expense. In the quarter, Pratt expanded margins by 70 basis points year over year, despite a 50 basis point headwind from tariffs.

Turning to Pratt's full-year outlook, we continue to expect sales to grow mid single-digits on an adjusted and organic basis, with operating profit growth between \$225 million and \$325 million versus 2025.

Turning to Raytheon on slide 9, sales of \$6.9 billion in the quarter were up 10% on an adjusted basis and 9% organically, driven by higher volume on land and air defense systems, including Patriot and GEM-T, and higher volume on naval munitions programs. Adjusted operating profit of \$845 million was up \$167 million versus the prior year, driven by favorable program mix and higher volume in land and air defense systems, higher volume in naval programs, and improved net productivity.

In the quarter, Raytheon expanded margins by 150 basis points year over year, driven by favorable mix and increased productivity. Bookings in the quarter were \$6.6 billion, resulting in a book to bill of 0.96 and a backlog of \$74 billion. And on a rolling 12-month basis, Raytheon's book to bill is 1.48.

In addition to the awards Chris mentioned earlier, other key awards in the quarter included over \$900 million for Standard Missile and Tomahawk.

Turning to Raytheon's full year outlook, we expect sales to grow high single-digits on an adjusted and organic basis, up from our prior range of mid to high-single digits due to the strength Neil mentioned earlier. We now expect operating profit growth between \$275 million and \$375 million versus 2025, up from our prior expectation of between \$200 million and \$300 million, driven by the drop through on higher sales and favorable program mix.

With that, let me hand it back over to Chris for some closing remarks.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Okay. Thanks, Nathan.

As we said upfront, our execution and operational performance drove strong top and bottom line results in Q1, and I want to thank the entire RTX team for their continued dedication and commitment to our mission. The underlying demand for our commercial and defense products is durable, and we remain focused on executing on our commitments, investing in capacity, and innovating for future growth to drive long-term shareholder value.

With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Thanks so much. Good morning. Chris, you highlighted the very strong demand you continue to see for missile systems in the Raytheon portfolio, but I was wondering how concerned are you about the ability of your supply chain to keep up with the demand pace you're setting and also, in relation to that, the risk with regard to rare earths? Thank you.

Christopher Calio - *RTX Corp - Chairman & Chief Executive Officer*

Thanks for the question, Rob. I'll start by just saying we're really pleased with how we started the year in terms of production. As we said upfront, munitions output was up over 40% year over year, so very good start to the year.

Now, the continued ramp of production is going to require growth in supply chain output and performance, as you've noted here. Now, Raytheon has had 12 consecutive quarters of material growth, which is great, and material receipts were up 13% year over year here in Q1. And we're obviously going to keep a very close eye on a number of the things that we talk about on a consistent basis: rocket motors, given the concentrated supply base; microelectronics, given the non-A&D demand that's out there.

But if you just think longer term and the potential impact of the framework agreements, it's going to require a step change, to your point, in the supply chain. Now, the framework agreements do provide some potential long-term firm demand, and that's going to provide the visibility the supply chain needs to invest in people, tooling, test equipment, and capacity, which is great.

But I think longer term, the defense and industrial base is going to need additional suppliers to improve the overall resiliency. And the firm demand is likely going to incentivize quality suppliers from other industries to enter the supply base, which is great, and I think we need it.

And the Department of War has been partnering with a lot of those folks to provide strategic capital to give them the balance sheet strength they need to make these investments. But we're going to need all of that in order to not only meet the production ramp up that we have in front of us now, but also the potential ramp up that comes with the framework agreements.

On critical minerals, I would just say that we've been working on this for a while, having seen this coming. And so we're covered in what I would call the near and medium term, and we're still seeking to lock up longer-term partnerships and contracts on a handful of those. And the Department has actually been a really strong partner in that effort as well.

Operator

Peter Arment, Baird.

Peter Arment - *Robert W. Baird & Co Inc - Analyst*

Yes, thanks. Good morning, Chris, Neil, Nathan. Hey, Chris, if we could just stick on your framework comments, just wanted to kind of double click on sort of how you're thinking -- I know pricing is always sensitive, but how we're thinking about the impact when you're thinking about capex that you've had to put in place and then how should we think about potentially margins long term.

Is there an opportunity here where the mix changes dramatically where you have more in production versus development mix? Just how you're thinking about Raytheon just given investments that you need to do, shoring up the supply chain, et cetera, and then any pricing around some of these agreements. Thanks, Chris.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Thanks, Peter. Given the demand coming out of the Ukraine conflict, we've been investing for a while in increasing capacity. We mentioned a number of those in our upfront comments, think Huntsville, think Andover, think McKinney, Texas, all those investments that you need to not only expand your footprint, but tooling, test equipment, and labor. So we've been on that path to meet the demand.

On the framework agreements, and again, I don't want to get too far into the details on this, Peter, only because we're still in the process of negotiations and discussions with the Department on that. But again, as I said before, when they are ultimately finalized, it will give the kind of long-term visibility that the supply chain will need to invest, which is critically important. I think the episodic nature previously of the ordering patterns made it very difficult for the supply chain to make those kinds of long-term investments. And things like the framework agreements are here to sort of address that.

But here's what I will say. If you just think about the overall economics of the framework agreements, they give us an opportunity to bundle materials, they give us an opportunity to leverage economy of scale, and they give us an opportunity to really drive production efficiencies, especially given some of these are mature programs, things that are right in our wheelhouse. So we ultimately think that these are going to be very good business for us, but we're still going through the process to convert those into final agreements.

Peter Arment - Robert W. Baird & Co Inc - Analyst

Appreciate the color. Thanks, Chris.

Operator

Myles Walton, Wolfe Research.

Myles Walton - Wolfe Research LLC - Analyst

Thanks. Maybe a question again on Raytheon, maybe a little bit digging into the details on the sensors and effectors. On the effectors side, as a surrogate, LHX laid out this almost 20% CAGR through 2030 for their missiles business. Would that be reflective of the kind of growth that you're expecting within that portfolio? And then we don't hear as much on the sensors side, but you mentioned the Andover expansion. So I'm curious, on the sensors side, what kind of growth you're looking for as it relates to your business in Raytheon? Thanks.

Neil Mitchill - RTX Corp - Executive Vice President, Chief Financial Officer

Hey, Myles. Good morning. I'll start on that one for you.

Let me start by giving you a little bit of perspective on the Raytheon portfolio. If we were to look at '25, '26, if you will, as a proxy for how large is the effector business within Raytheon, think about that as accounting for a little bit over 40% of the sales of Raytheon, so to just give you some context. And sensors obviously makes up a little less than that, but a large portion of the Raytheon business as well.

And I would tell you that the growth we saw in the first quarter was significantly driven by the munitions and effectors, also the sensors, Patriot in particular. And we're seeing double digit growth rates on those businesses in the quarter, and I expect that to continue as we go forward. Keep in mind, everything that Chris just spent a couple of questions talking about is not even in our backlog yet. So we're just talking about delivering today's backlog to both our U.S. and our international customers.

On the sensors side, we see a lot of runway ahead of us there as well. We're continuing to build and deliver Patriot systems, NASAMS systems, the Coyote system, and obviously, we're ramping up our production on LTAMDS as we look forward.

So hopefully, that helps give a little bit of context on the size of the business and where we see it going. Again, as we finalize those agreements, we'll be sharing more details on the specifics as they come to finality. Chris?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

No, the only thing I was going to add there, Myles, is I think the underlying premise to your question is a good one, which is I think the sensors potential has been something that has perhaps been underdiscussed given, obviously, the framework agreements and all the replenishment that you're going to need on the effectors side. And Neil rattled off a whole bunch of pieces of that portfolio, which I think are going to be really critical priorities.

But again, just think Golden Dome, think integrated air and missile defense, the sensor portfolio is going to continue to grow in importance. And I think we're going to see the output there have to grow over the long term as well.

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - Morgan Stanley - Analyst

Hey. Good morning, everyone. When we look at what's happening in Iran, there's a clear increasing need to solve for some of the cost mismatch issues for the lower-cost drones. I guess the demand signal for your existing products is very clear and the replenish of the arsenal makes sense. But can you talk about how you're thinking about the solutions you could provide and these higher-volume but cheap drones especially when we think about the future of warfare and how that could be integrated into the Golden Dome?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Thanks, Kristine. Appreciate the question.

I think just to provide some high level context here, I think we're going to continue to need the right mix of capabilities. And you're absolutely right, the Department of War has put priorities around munitions depth and replenishment, integrated air missile defense, Golden Dome, all the things that are in the Raytheon wheelhouse and very mature products and products that are in production today.

But your point about counter UAS is a good one. We talked upfront about our Coyote system. And the Coyote system has been in great demand. It's performed exceptionally well in the field, and we've just actually started to introduce a non-kinetic version of the Coyote. So it can go up, it can perform its mission, it can address drone swarms. It can then come back and be redeployed, recharged, and again, go out and prosecute another mission. So that goes to the low cost, reusable nature of that particular platform, and we're seeing really strong demand both domestically and internationally. In fact, we just had an FMS case approved for Coyote for the UAE, just to show the level of international demand there.

I think more broadly, you're right, there are a number of lower-cost sort of platforms that are out there. I'm not sure that's where we're going to compete on a platform level, but I do think there are going to be opportunities for us to be a platform-agnostic supplier of systems on some of these solutions, whether that be mission systems, whether that be autonomy, whether that be propulsion. So that's kind of how we see this landscape playing out: clear demand for the high-end capabilities that are in our backlog today and that are part of the framework agreements, clear strength in our counter UAS capabilities, again, Coyote, and then opportunities for us to play on some of those other platforms as a supplier.

Operator

Mariana Perez Mora, BofA.

Mariana Perez Mora - *BofA Merrill Lynch Asset Holdings Inc - Analyst*

Good morning, everyone. Thank you for taking my question. I wanted to follow up about the tariff impact. How have we seen the impact so far after these new metal tariffs that were recently announced and also the Supreme Court ruling on IEEPA?

Neil Mitchell - *RTX Corp - Executive Vice President, Chief Financial Officer*

Sure. I'll start with that one. Thanks for the question on the tariffs.

Really no change today to our outlook for tariffs for the P&L for the full year. We talked about back in January seeing about a \$75 million year over year tailwind as we continue to implement mitigations there. Obviously, the IEEPA tariffs court ruling have been overturned. They've been replaced with Section 122 and some other tariffs called Section 232. And so right now, we're sort of saying on balance, the tariff impact is about the same.

That said, since the tariffs for IEEPA were put in place, we paid about \$500 million associated with that kind of tariff. Obviously, the government is in the process of starting the refund process, and as we gain more clarity into that, we too will submit requests for our refunds there. We have not recorded income associated with reversing any of the expenses that we took, and we have not included that in our guidance for this year either.

So more to come there, but no change to our outlook today based on any of those changes. And if it improves, you'll see it in the bottom line, but right now, we're continuing to monitor it like everyone.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Hey. Good morning. Chris, can you walk us through how you're thinking about the pricing strategy for Hot Section Plus, which I believe is off warranty? And then do you require any additional regulatory approvals to begin providing Hot Section Plus on upcoming shop visits?

Christopher Calio - *RTX Corp - Chairman & Chief Executive Officer*

Yeah. Hey, Scott. Thanks for the question.

Well, first and foremost, we're really pleased here to have the aircraft certification on the GTF Advantage which, as you know, is where the Hot Section Plus comes from. So that paves the way for Advantage to enter into service later this year. And those GTF Advantage engines are already moving through our production lines. And so I know our customers are looking forward to the increased time on wing and fuel efficiency.

And to your point, the Hot Section Plus is effectively the Advantage retrofit package. Those 30 to 35 parts are going to provide almost 95% of the durability benefits of the Advantage, and they're going to get introduced into MRO a little bit later this year. So they'll be introduced in MRO before likely the actual engine goes into service later this year.

In terms of the pricing strategy, I mean, we've invested significantly in the Advantage in all of the design and the testing and the like, and we plan to get value for that investment. Are there certain contracts that we have where it might make sense to incorporate versus others depending on where they're operating and what the environment looks like? Yes, and we're continuing to look at where it might be the most beneficial. But our intent is to get value for the investment that we've made and the value that is going to continue to bring customers in terms of the time on wing and the fuel efficiency, which is again becoming a more important part of the overall equation.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Really helpful. Then, Neil, can you explain how the transition to GTF Advantage will influence negative engine margin on the program? I assume there's some better pricing there, but it's not clear how that nets against presumably higher costs. If you could clarify that balance, that'd be really helpful.

Neil Mitchill - *RTX Corp - Executive Vice President, Chief Financial Officer*

Sure. Thanks, Scott. I appreciate the question here.

As we look forward, I think the GTF Advantage will have a little bit more cost associated with the engine as it brings greater capability and durability. But that said, you named it, there'll be some more pricing there as well. So on balance, I don't see a lot of headwind on a per engine basis as we begin to ramp up on the GTF Advantage engine over the next several years.

So as we've talked about for this year, we do think there's going to be a couple of hundred million dollars of headwind on OE margins throughout the course of the year. I'll tell you, for the first quarter, it was pretty much flat, not a major driver of the year over year performance. At Pratt, they're doing a really nice job managing the cost of the engine. We're going to continue to see negative margins on deliveries of new engines, but obviously, the aftermarket is continuing to ramp there considerably.

You heard Chris talk about the 22% GTF MRO output increase in the first quarter that's driving aftermarket. The mix of those shop visits is getting heavier as well. And the margins on the aftermarket are low double digits. So we're starting to see the sequential improvement in the profile of the aftermarket at Pratt as well.

So on balance, it's good business. It's great to see the certification occur here in the first quarter, and we're looking forward to making a very disciplined cutover over the next year and a half or so.

Operator

John Godyn, Citi.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

Hey, guys. Thanks for taking my question. I was hoping to revisit Raytheon and the defense trends. Clearly, a lot of opportunities there and the guidance was raised. That said, it was a very strong start to the year. So it feels like perhaps guidance is even a bit conservative. Maybe you could just revisit the outlook a bit and the shape of the year and how you see it playing out. Thanks.

Neil Mitchill - *RTX Corp - Executive Vice President, Chief Financial Officer*

Thanks, John. I'll take that one.

Yeah, really pleased with the start of the year for Raytheon, seeing 9% growth on the top line. Chris talked about the material receipts, 12 consecutive quarters, 13% growth there. So we've been working, the team has been working very hard to make sure that we are prepared to deliver the backlog we have and then get ready for the future as well.

With that strength, we dropped it through to our guide. We took up the top line at RTX by \$500 million on the low and the high end of the range, say about \$350 million of that is all attributable to the Raytheon performance largely in the first quarter and what we can see as we enter here into the second quarter. The rest of the sales increase, we see some lower eliminations at the RTX level, so together, that's about \$500 million.

And we're seeing good drop through. As you can see, the margins for Raytheon were 12.2% in the first quarter. We had \$32 million of year over year productivity improvement at Raytheon, so really nice start to the year. We're putting that into our guidance as well, and so that's a big driver of the \$75 million increase in the range on both ends of the high and low end of the range for Raytheon.

So again, it's one quarter. We think that the business is performing quite well. We're seeing really good mix in the business. And as we continue to see that supply chain keep pace with our delivery plans, then we'll revisit that again here in July. But really pleased with the start and looking forward to continuing to see the ramp.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Hey. Good morning, everyone. I wanted to ask about the impact of lower expected air travel growth on the aftermarket businesses at both Collins and Pratt, particularly maybe the shorter cycle stuff at Collins. But if you could address it overall, we heard elsewhere this morning about the potential for a lag effect, and so thinking about some impact coming later this year and into '27. But it's a pretty significant hit to air travel growth this year, so maybe you could address that.

Christopher Calio - *RTX Corp - Chairman & Chief Executive Officer*

Yeah. Thanks, Seth.

Well, the first thing I'll say is that we were really pleased with the way we started the year in our aftermarket business with 14% growth and the demand that we saw. And you're right, we're watching all the things that you're watching in the environment and the implications around higher fuel prices, jet fuel shortages, the moves that airlines are making on capacity adjustments.

If you just think about our business, I think you've got to look at it by business unit and by channel to really understand sort of some of the implications. Now, some of the initial moves that the airlines are making where they're retiring much older sort of platforms, again, a lot of our aftermarket isn't reliant on those. We don't see a lot of maintenance opportunities on some of those platforms. So those near-term moves don't see a lot of impact.

If you look at Pratt, the two largest portions of our aftermarket are the V2500 and the GTF. As we've said before, the V2500 is still a very young fleet; 50% of it hasn't had a first or second shop visit. Shop visits were very strong here in the first quarter and, again, look to continue to be strong throughout the year.

Then on the GTF, well, number one, it's the most fuel-efficient, which right now, of course, is I think, what people are focused on. But beyond that, you obviously know that we've got the fleet health issues that we're contending with. We've got to continue to move engines out of

the parking lot into our MRO shops, and we've seen good output there, as Neil talked about. So the demand for GTF MRO is going to continue to be pretty robust.

At Collins, again, you've got sort of the three channels: the parts and repair, the provisioning, and the mods and upgrades. And I think where you'll start to see any potential issue would perhaps be in provisioning and mods and upgrades; provisioning if airlines decide that they want to sort of live with lower stocking levels, and mods and upgrades if the airlines decide they want to maybe defer some of those things. Now, we just haven't seen any of the impact on the demand yet, but that's kind of how we're thinking about it, and that's kind of how we're tracking it.

Neil Mitchill - RTX Corp - Executive Vice President, Chief Financial Officer

Yeah thanks Chris, I don't have much to add there but I will add a couple data points, maybe just to help people do some sensitivities as we think longer term about this. On the Pratt business, about half of their segment is aftermarket. And as Chris said, the predominance of that is coming from the GTF, the V2500, and I would throw in there Pratt Canada. So if you put those three together, you're over 85% of the aftermarket sales. And Pratt Canada is a very diverse business, lots of customers, 70,000 units in service, and great strength really across a number of their different business channels.

So just to provide a little context there, on Collins, aftermarket there is about 40% of the total segment. The parts and repair makes up about two-thirds of the aftermarket. So just a little bit of context to help people think about it. Again, very diverse business operating on a lot of what we would call the right platforms, a lot of newer platforms.

And keep in mind, out of warranty flight hours continue to grow. When you think about all of the deliveries over the last five years, with the growth that we've seen year over year, we have more and more hours coming out of warranty every single year. And so those are the aircraft that will continue to fly even in a slightly depressed environment.

So as we sit here and look at '26, there's no changes to our by channel outlooks at this point for commercial OE or aftermarket, we're watching it, but I think we're feeling like, as we look at our portfolio we have pretty good line of sight to the demand.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Good morning, guys, and thank you. I wanted to ask about profitability, both Collins and Pratt. So first, on Collins, margins were quite healthy despite the tariff impact and OE growth mix. How would we think about 2026 guidance, which suggests the rest of the year margins are flat to down slightly versus Q1, which would sort of buff the seasonal trend? So just how do we think about Collins' puts and takes on margins?

And then on Pratt, Neil, you provided a sensitivity layout for us right here. So when we think about the V2500, the PW2000 and the 4000, any chance you could give us a breakout of what percentage that compromise consists of and the retirement rates that you're assuming?

Neil Mitchill - RTX Corp - Executive Vice President, Chief Financial Officer

Great. Thanks. Let me start with the Collins margins.

I think you said it, Sheila, it was a really strong start to the year. Despite our last quarter of having to deal with the year over year headwind from tariffs, Collins has done a nice job. They're focused on cost. We're taking on more and more OE, and some of that mix is a headwind,

frankly. So with all of that, we continue to see margin expansion. You're right, as you look at the rest of the year, the margins remain relatively steady. I think as we continue to see OE mix trend toward more wide bodies, on the growth side, we'll have a little bit of a headwind there.

It's a little bit early, as you know, to be adjusting the full year. We just talked about some of the uncertainty in the market. I think we're going to hold off for another quarter to see what second quarter looks like, but we're feeling like the Collins business is certainly on the right trajectory.

If we get into the Pratt business, what I would say is the PW2000s is really not a major driver of the aftermarket. Obviously, we have a bit of a bigger portfolio on the 4000s, but we've been planning for that, I'll call it, structured decline for a number of years. And so that's not changing in our outlook here.

On the V2500 specifically, we also are well connected with our customers. It's a young fleet, as Chris said. 50% of the fleet hasn't seen its second shop visit, 15% hasn't even seen its first shop visit. So we expect those airplanes to fly. They're also very durable and perform well. So despite the higher fuel prices, I think that they're great aircraft powered by the V2500.

So as we look out, we're planning, call it, 1% to 2% kind of retirements for the V, the shop visits for the first quarter, we're on the run rate we expect for the full year, which is about 800. So continuing to see the strength there, have a lot of visibility into the shop visit pipeline. Keep in mind, we're operating in a material constrained environment, and so there's significant demand for spare parts and overhauls there. So that's what I would say as it relates to Pratt.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Great. Thank you.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - Cowen and Company LLC - Analyst

Yeah, thanks. Good morning, guys. I was wondering if you could give us some help on how to think about AOGs on the GTF because it's very hard from the outside to track those which were powdered metal impacted and not. So just kind of thinking about, at year-end, is there some natural number we should be expecting of AOGs that you can point to that would be consistent with your assumptions on MRO output and the charge provision you took a couple of years back, just so we know that we're tracking to what you've already guided to?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah, thanks. I'll start.

And maybe just to address kind of your final point there, the financial and technical outlook for the powdered metal situation remains on track. And as I said upfront, we were really pleased that AOGs came down 15% in Q1 from the end of last year. That was on the back of some very solid MRO performance in Q1, the PW1100 output was up 23% year over year, as I said, and that was with heavier shop visits up 9 points year over year. And so that was enabled by heavy shop visit turnaround time improving by about 20%. So very good performance in the shop helping enable the reduction in those AOGs.

A couple of other of good indicators as well as we think forward. PW1100 inductions were up 7% sequentially from Q4 to Q1, and so we're improving that WIP in our shops to support the future growth in MRO output. And we also saw continued progress in material growth across

some of the key value streams that are going to be important to MRO output. Structural castings were up 10% year over year, isothermal forgings were up 18% year over year. So again, those are all the elements that go into continuing to drive MRO output for the year, which in turn is going to continue to drive that downward trend that we talked about here that we saw in the first quarter.

I won't give up sort of a point estimate as to where we're supposed to be, but I will just say, as you just look at sort of the public data around AOGs, there are some in there that have absolutely nothing to do with engines. There are a number of other factors. Maybe they're going through a mod and upgrade. Maybe they're being returned from lease and they need some modifications. And so not all of those are engine related.

I'll also tell you that we continue to have removals for other reasons other than powdered metal, but those are the things that were in existence previously. And we've continued to provide upgrades to improve the durability and reliability. And so we also believe those will continue to have a positive effect as we look forward.

So again, pleased with the Q1 performance. Our customers obviously want their assets back. It was a real positive shift this quarter in terms of the reduction. And given all the elements that I just talked about within MRO and those indicators, we continue to believe that that downward trajectory is going to continue.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Thank you.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Good morning, Chris and Neil. Very good results. SpaceX is just going public at a very lofty valuation and its IPO will probably create generational wealth for a lot of its employees. We've also seen Shield AI raise capital at a \$12 billion valuation. Anduril is looking to raise capital at a \$60 billion valuation. Just how are you thinking about that in the context of retaining your best employees and engineers? Because they don't join a defense tech company where they get a significant upside from the equity valuation.

Christopher Calio - *RTX Corp - Chairman & Chief Executive Officer*

Yeah. Thanks, Scott. I thought where you were going with that is that we were undervalued. That's what I was hoping the point you were making there was.

But all kidding aside, again, this is something we think about a lot in terms of the defense ramp up. With unemployment at 4.3%, how do we make sure that we can attract and retain the labor that we need? In some cases, it's classified labor, which can be even more difficult because you got to get people cleared and the like at many of our facilities. So our labor strategy is something that we are laser focused on.

Now, you mentioned our engineering population. If you look at RTX-wide, we've got roughly 180,000 people, but a third of those are engineers and they are clearly the lifeblood of the company when you think about innovation being the bedrock of everything that we do. And so I think there's a couple of things that come into play there. Number one, we've got to continue to be competitive just from a compensation perspective, and that's something we're always looking at.

And then number two, I will tell you that you walk the floors within RTX, you will see an uncommon dedication to the mission. And I think people get really excited about the work that we do and the mission that we play to connect and protect the world, in particular, on the national security side, given how critical our products are to national security and to our allies.

So it's not easy, to your point, Scott. There are people that will go take a leap to go somewhere where they see that there might be some runway with an early stage company. But by and large, we've been pretty successful at retaining our top folks. And again, I think that comes down to the core mission that we serve.

Scott Mikus - *Melius Research LLC - Equity Analyst*

All right. Thank you.

Operator

Ken Herbert, RBCCM.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Yeah, hey. Good morning, Chris and Neil. I just wanted to follow up on the large commercial engine deliveries. With the first quarter in line with plan and obviously still the mid to high single for the full year growth, how do we think about the cadence into the second quarter and second half of the year? And I guess within that, as a result of just supply chain incremental risk from higher input costs and everything else, are you seeing any incremental risk on your, I guess, Pratt supply chain from suppliers around the world just as a result of the war at Iran? Thank you.

Neil Mitchell - *RTX Corp - Executive Vice President, Chief Financial Officer*

Thanks, Ken. Good morning.

Let me start with the supply chain piece. Right now, as you know, we've been talking about this for a long time. Pratt has been laser focused on ramping up critical supply chain elements, structural castings, turbine airfoils, and many other parts that go into the engine. And I think we've done a nice job there.

So continue to see growth in those key elements, materials that go into the engine. And so we're not seeing anything new crop up, obviously, with the kind of growth rates we're talking about. Because you've got to keep in mind, we're not only feeding the OEM growth rates, we're feeding the aftermarket as well. It's pretty substantial, but nothing new to report there.

As it relates to the delivery profile, as planned, we were allocating materials between MRO and original equipment in the first quarter. You saw that in the sales number and in the delivery numbers for the quarter. And as you look at the implied performance for Pratt through the rest of the year, we still expect OE to be low single-digit sales and, as you said, up mid to high single-digit unit delivery. So we'll continue to grow the number of new engines we deliver this year. And that will kind of happen pretty ratably as we think about the rest of the year.

Now, keep in mind, we have the strike last year in the second quarter. And so this year, second quarter, we'll have an easier compare. But as we think about it, the negative engine margin will ramp up over the next several quarters as we kind of balance the mix of material between MRO and OE and drive the OE, the AOG's down and then continue to deliver to our end customer, Airbus.

Operator

David Strauss, Wells Fargo.

David Strauss - Wells Fargo Securities LLC - Equity Analyst

Following up there on Ken's question, maybe could you specifically address the state of negotiations with Airbus and what they're desiring to get in terms of engines from you? And then secondly, if you could maybe just talk about the interior side of the business with Collins, where that is now in terms of being able to handle what looks like a coming wide-body ramp. Thanks.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Thanks, David.

On your first question, as Neil said, we're going to continue to see OE deliveries step up throughout the year. And when we get to the end and execute on that plan, it's going to be a record number of GTF engines that we've delivered, and that delivery share is going to remain above the program share. So continue to be pleased about that.

In terms of the discussions with Airbus, those are always ongoing, and we're always talking with them about what's going on industrially, what's going on from a supply chain perspective, and balancing, of course, the needs of the GTF fleet health and our mutual customers. And so those conversations will continue to go on.

I will tell you that our focus is on making sure that we are investing for the growth we see both on the OE and the MRO side. On the MRO side, you heard us talk about some of those investments that we've made in Singapore that we're going to then translate into other parts of our network. We're going to be adding a forging press in our Columbus, Georgia, facility. We're going to be adding a new tower for powder production at our HMI facility in New York. You heard Neil talk about the turbine airfoil ramp up at Asheville. These are all investments that we're making because we continue to see the demand both on the OE and MRO side.

And again, the relationship with Airbus is an important one for us. It's one that we, of course, greatly value, and it's one that has spanned decades. And it will continue to span decades and we will continue to work through our issues as we always do in a constructive and transparent manner. And I have no doubt we'll ultimately get there to where we need to be on volumes going forward.

Neil Mitchell - RTX Corp - Executive Vice President, Chief Financial Officer

And maybe just a comment on interiors. Had a good quarter, sales were up double digits, so call it low teens, if you will, in the first quarter. We're continuing to work through a couple of certification requirements on a handful of bespoke programs, but business has a good trajectory. We're expecting solid growth for the full year and pretty good line of sight to mods and upgrades for the remainder of the year. So feeling good about that today.

Thank you for the question.

Operator

Thank you. With that, I will now turn the call back over to Nathan Ware.

Nathan Ware - RTX Corp - Vice President, Investor Relations

All right. Thanks, Lateef. That concludes today's call. As always, the Investor Relations team will be available for follow-up questions. So thank you all for joining us, and have a good day.

Operator

This now concludes today's conference. You may now disconnect.

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