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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the RTX fourth-quarter 2025 earnings conference call. My name is Livia, and I'll 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 Mitchell, 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 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 nonrecurring 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's 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. We delivered strong sales, adjusted EPS and free cash flow in the fourth quarter, underscoring our momentum and focus on execution across RTX. For the full year, adjusted sales were \$88.6 billion, up \$9 billion year-over-year or 11% organically, driven by 10% growth in commercial OE, 18% growth in commercial aftermarket and 8% growth in defense.

Adjusted EPS of \$6.29 was up 10% year-over-year on drop-through from higher sales. And free cash flow was a robust \$7.9 billion, up \$3.4 billion year-over-year. Our performance continues to be driven by the durable demand for our products and services and operational improvements enabled by our CORE operating system.

On the orders front, we ended 2025 with a full year book-to-bill of 1.56, resulting in another record backlog of \$268 billion, up 23% year-over-year with roughly \$161 billion of commercial orders and \$107 billion of defense awards. On the commercial side of the business, our backlog is up 29% year-over-year, driven by growing aircraft production rates and resilient passenger air travel.

Orders and commitments during the year included over 1,500 GTF engines and over 2,400 Pratt Canada engines. On the defense side, our book-to-bill for the year was a very strong 1.31 and included several significant fourth quarter awards. For example, Raytheon booked \$1.2 billion to supply Spain with additional Patriot air and missile defense systems.

It was also awarded a \$1.2 billion contract for Tamir missile production with work to be executed in our recently completed Camden, Arkansas facility. Raytheon booked \$40 billion of awards in the year and their international backlog mix is now 47%, up 3 points from the end of 2024. At Pratt, the military business booked \$2.2 billion in sustainment contracts to support multiple engines, including the F135 and the F119.

And at Collins in the fourth quarter, the business was awarded a \$438 million contract from the FAA to deliver radar systems for the broader Radar System Replacement program, which will help modernize the U.S. Air Traffic Control System. So overall, a very strong year of orders across the company, highlighting the growing demand of our products and services and setting us up very well heading into 2026. Neil will walk you through the details of the fourth quarter and our 2026 outlook in a few minutes.

But first, let me briefly comment on the operating environment that we see today. Demand remains strong, which combined with our existing backlog and focus on execution positions us well for another year of top line growth. Commercial air travel is expected to grow again with global RPKs projected to increase around 5% this year on top of the 5% we saw in 2025.

On the commercial OE front, given the substantial airframer backlogs, we expect OEM production rates to increase again this year, particularly on the A320neo, 737 MAX and 787 platforms as well as on business jet and general aviation aircraft, all platforms where we have significant content.

In commercial aftermarket, our growing installed base, which now includes about \$105 billion of out-of-warranty aircraft content at Collins and an expanding fleet of engines at Pratt positions us well for sustained commercial aftermarket growth. On defense, there is a heightened need for munitions and integrated air and missile defense as the U.S. and partner countries work to replenish inventories, modernize existing systems and invest in new capabilities.

We understand that our products are critical to maintaining security around the world, and we fully support the Department of War's transformation objectives to significantly increase capacity and accelerate production over a sustained period. And given the commercial expertise in our business, we are very well positioned to bring a commercial approach to the Department's transformation initiatives.

On the international side, NATO allies, which today spend around 2% of GDP on defense, have committed to increasing their core defense spending to approximately 3.5% of GDP by 2035. And across the Asia Pacific and Middle East regions, defense budgets are projected to grow at an average of 3% to 4% annually over the next five years with several countries at record levels.

Altogether, these growing global demand signals support another strong financial outlook for RTX. For 2026, we expect adjusted sales to be between \$92 billion and \$93 billion, with 5% to 6% organic growth year-over-year. Increased volume, along with pricing and our continued

focus on productivity and our cost structure will support another year of consolidated segment margin expansion. We expect adjusted EPS to be between \$6.60 and \$6.80 with between \$8.25 billion and \$8.75 billion of free cash flow for the year.

Consistent with 2025, our performance will be underpinned by our strategic priorities and a relentless focus on operational execution. Moving to slide 4. Let me highlight how we continue to drive execution, improve productivity and increase output utilizing our CORE operating system and digital solutions.

At Raytheon, the team leveraged CORE to significantly increase munitions output across the business in 2025. Notably, we saw output increase by 20% across a number of our critical programs, including GEM-T for the Patriot air and missile defense system, AMRAAM, which is the premier air-to-air combat proven effector and Coyote to support counter-UAS capabilities.

In 2026, we expect to significantly increase output again on these programs as well as on other critical munitions, including SM-6 and Tomahawk. We're also continuing to deploy our proprietary data analytics and AI tools across our factories to monitor daily key performance indicators, identify bottlenecks to reduce work in process and track equipment health and performance, all to enable more informed decisions, reduce costs and improve output.

Across RTX, we've now connected factories that represent over 50% of our annual manufacturing hours to our digital platform, and we're seeing the benefits. For example, Pratt has reduced aged inventory by about 45% at its Lansing, Michigan facility, which manufactures GTF fan blades. And within Raytheon's Andover, Massachusetts facility, we've reduced circuit card production cycle times by about 35%.

In 2026, we'll continue to see these benefits as we connect more equipment and expand coverage across our footprint. On the GTF fleet management plan, our financial and technical outlooks remain on track. As planned, PW1100 AOGs declined in the fourth quarter, and we expect this trend to continue as we move throughout the year.

MRO output was up 39% in the fourth quarter and up 26% for the full year, even as heavier shop visits increased 40% in 2025. We also announced the addition of two new MRO shops with the UAE's Sanad Group and Spain's ITP Aero joining the GTF MRO network. We expect this momentum to continue in 2026 with year-over-year growth in PW1100 MRO output in line with what we saw in 2025.

To support our operational growth, we continue to make significant investments in capacity and technology. In 2025, we invested over \$10 billion in capex and company and customer-funded research and development with a concentration on expanding our production capacity and factory automation, bringing new products to the market and our cross-company technology road maps.

On the capex front, we invested \$2.6 billion last year. This included significant capacity expansion at Raytheon in areas such as Tucson, Arizona for Tomahawk and classified programs and Huntsville, Alabama to increase output for the Standard Missile family. We also made investments to increase production in other key facilities across the company, such as Spokane, Washington to support Collins' carbon brake production; and Asheville, North Carolina to expand Pratt's turbine airflow machining and coating capacity for the GTF and F135.

In the fourth quarter, we received the EU certification of the GTF Advantage engine and expect aircraft certification soon. We have begun production cut-in of the Advantage engine and expect entry into service later this year, along with certification and first installations of the associated hot section plus upgrade package for MRO customers.

We're also progressing on our strategic partnerships. In 2025, we made \$85 million in investments across 19 companies through RTX Ventures in areas such as autonomy, advanced manufacturing, space and propulsion. This included a successful demonstration of Raytheon's DeepStrike autonomous mobile launcher vehicle in collaboration with multiple RTX Ventures portfolio companies.

In 2026, we plan to invest another \$10.5 billion in capex in company and customer-funded research and development, including another \$3.1 billion in capex on top of the \$2.6 billion I just highlighted for last year. Specifically, Raytheon will continue capacity investments in areas such as Tucson and Andover, building on projects completed last year and creating additional capacity for munitions and sensors, including the Standard Missile family, AMRAAM, Tomahawk, Patriot and LTAMDS.

Collins will increase capex this year to support growing commercial and defense platforms, including the expansion of the Richardson, Texas facility for the Survivable Airborne Operations Center and the E-130J programs. And Pratt will continue to invest in capacity across multiple sites, including Columbus, Georgia to increase forging production and Asheville to establish a foundry to produce turbine airflow castings.

We've got great momentum heading into 2026 and feel very good about how our company is positioned to drive another year of strong growth in organic sales, segment margin expansion and free cash flow generation. With that, let me turn it over to Neil to take you through the fourth quarter results and more details on our 2026 outlook. Neil?

Neil Mitchell - RTX Corp - Chief Financial Officer

All right, Chris. Thanks. I'm on slide 5. As you saw, we had very strong financial performance to finish the year. In the fourth quarter, adjusted sales of \$24.2 billion were up 12% on an adjusted basis and 14% organically. By channel, organic growth was driven by commercial OE, which was up 18%, commercial aftermarket which was up 17% and defense, which was up 10%.

Adjusted segment operating profit of \$2.9 billion was up 9% year-over-year, and adjusted earnings per share of \$1.55 was up 1% from prior year as strong segment operating profit growth was partially offset by expected higher corporate expenses and a higher effective tax rate in the quarter.

On a GAAP basis, EPS from continuing operations was \$1.19 and included 31 cents of acquisition accounting adjustments and 5 cents of restructuring and all other nonrecurring items. This included a 15 cent settlement charge associated with the pension transaction we completed in the quarter.

Free cash flow for the quarter was very strong at \$3.2 billion, bringing our full year free cash flow to \$7.9 billion, as Chris said. This included approximately \$1 billion of powder metal-related compensation and approximately \$600 million of tariff-related impacts.

Lastly, in the quarter, we paid down \$1.1 billion of debt and completed the divestiture of the Collins' Simmonds business. Okay, with that, let me hand it over to Nathan to take you through the segment results, and then I'll come back and share some details on our 2026 outlook.

Nathan Ware - RTX Corp - Vice President of Investor Relations

Okay. Thanks, Neil. Starting with Collins on slide 6. Sales were \$7.7 billion in the quarter, up 3% on an adjusted basis and 8% organically, driven principally by strength across commercial OE and aftermarket. Adjusting for divestitures by channel, commercial OE sales were up 9%, driven by higher volume on wide-body and narrow-body platforms.

Commercial aftermarket sales were up 13%, driven by a 24% increase in provisioning, an 11% increase in parts and repair and a 7% increase in mods and upgrades. Defense sales were up 2% versus the prior year on a difficult compare, driven by higher volume across multiple programs. Recall that the prior year was up 13%.

Adjusted operating profit of \$1.2 billion was up \$16 million versus the prior year as drop-through on higher commercial aftermarket and OE volume was partially offset by the impact of the divestitures completed during the year and higher tariffs across the business. For the full year, Collins generated \$30.2 billion of adjusted sales and \$4.9 billion of adjusted operating profit, resulting in 9% organic sales growth and 30 basis points of year-over-year margin expansion.

Shifting to Pratt & Whitney on slide 7. Sales of \$9.5 billion were up 25% on both an adjusted and organic basis, driven by strength across all channels. Commercial OE sales were up 28%, driven by increased deliveries and favorable mix in large commercial engines with large commercial engine deliveries up 6% for the full year. Commercial aftermarket sales were up 21%, driven by higher volume, including heavier content in large commercial engines and Pratt Canada.

In military engines, sales were up 30%, driven by higher F135 production volume and higher sustainment volume across multiple platforms, including the F135 and F100. Adjusted operating profit of \$776 million was up \$59 million versus the prior year, driven by drop-through on higher military and commercial aftermarket volume as well as favorable military and commercial OE mix.

This was partially offset by the impact of commercial aftermarket mix, higher tariffs across the business, higher SG&A expense and the absence of an approximately \$70 million prior year insurance recovery. For the full year, Pratt generated \$32.9 billion of adjusted sales and \$2.7 billion of adjusted operating profit, resulting in 17% organic sales growth and 20 basis points of year-over-year margin expansion.

Turning to Raytheon on slide 8. Sales of \$7.7 billion in the quarter were up 7% on both an adjusted and organic basis, driven by higher volume on land and air defense systems, including Patriot and GEM-T and higher volume on naval programs, including Evolved SeaSparrow Missile and Tomahawk. This was partially offset by the absence of a prior year benefit related to a restart of contracts with the Middle East customer.

Adjusted operating profit of \$885 million was up \$157 million versus the prior year, driven by improved net productivity, higher volume and favorable program mix. Bookings in the quarter were \$10.3 billion, resulting in a book-to-bill of 1.35 and a record backlog of \$75 billion, with a full year book-to-bill of 1.43.

In addition to the awards Chris mentioned earlier, other key awards in the quarter included over \$900 million of classified bookings and approximately \$600 million for NASAMS. For the full year, Raytheon generated \$28 billion of adjusted sales and \$3.2 billion of adjusted operating profit, resulting in 6% organic sales growth and 130 basis points of year-over-year margin expansion, including \$157 million of improved net productivity.

With that, I'll hand it back over to Neil to provide some more details on our 2026 outlook.

Neil Mitchill - RTX Corp - Chief Financial Officer

Thanks, Nathan. Turning to slide 9. Let me take you through the drivers of our 2026 outlook that Chris highlighted. Starting with sales. Given our current backlog and the demand environment we have discussed, we expect total RTX sales to be between \$92 billion and \$93 billion for the full year.

On an organic basis, this translates to between 5% and 6% top line growth. By sales channel at the RTX level and adjusting for divestitures, we expect both commercial OE and defense to grow mid-single digits and commercial aftermarket to be up high single digits.

Moving to EPS. Let me take you through the year-over-year walk. For the year, the most significant driver will be segment operating profit, which will drive approximately 59 cents of EPS growth at the midpoint of our outlook range. Included in this segment growth is a headwind of roughly 3 cents associated with the divestitures we completed last year at Collins.

And with lower average debt, we expect a tailwind from lower interest of about 6 cents. Partially offsetting these items is approximately 13 cents from lower pension income, driven primarily by the actions we've taken to derisk our pension plans, including the transaction I just mentioned. Finally, we expect a 5 cent headwind from a higher share count and anticipate a 6 cent headwind from all other items largely related to higher minority interest associated with our joint ventures.

All in, this brings our adjusted EPS outlook range to between \$6.60 and \$6.80 for the year. Moving to our free cash flow walk. Operational performance, primarily segment operating profit growth will drive an improvement of approximately \$1.1 billion. This operational improvement includes a slight working capital tailwind as we continue our company-wide initiatives to improve inventory management.

Specific to powder metal compensation, we expect around \$700 million for the year, which results in a tailwind of about \$300 million year-over-year. Partially offsetting these items will be the impact of higher capex of approximately \$500 million as we invest to support the growing customer demand that Chris discussed. For the full year, we expect to invest approximately \$3.1 billion in capex.

Lastly, we expect a headwind of approximately \$300 million for all other items, including the net impact of pension, interest, taxes and other investments. All in, we expect free cash flow to be between \$8.25 billion and \$8.75 billion for the full year. With that, let's turn to slide 10, and I'll provide the details around our segment outlooks. Starting with Collins, we expect full year sales to be up mid-single digits on an adjusted basis and up high single digits organically.

Adjusting for the divestitures we completed in 2025, we expect commercial OE to be up approximately 10%, driven by double-digit growth across narrow-body and wide-body production, along with single-digit growth across business jet and civil rotorcraft platforms. Commercial aftermarket is expected to be up high single digits, driven primarily by further growth in out-of-warranty flight hours and global RPKs.

Defense sales are expected to be up mid-single digits, driven by multiple programs, including the F-35 and other mission systems platforms. With respect to Collins adjusted operating profit, we expect it to grow between \$425 million and \$525 million versus the prior year. This is driven by drop-through on higher volume across all three channels, higher pricing and the benefit of continued cost reduction efforts across the business.

Keep in mind, this profit outlook includes an approximately \$50 million headwind associated with the completed divestitures. Shifting to Pratt & Whitney, we expect full year sales to be up mid-single digits on both an adjusted and organic basis. By channel, we expect commercial OE to be up low single digits as increased large commercial and Pratt Canada engine deliveries are partially offset by engine mix within large commercial engines. Commercial aftermarket is expected to be up high single digits, driven by higher volume across large commercial engines, primarily GTF and Pratt Canada.

Within the military business at Pratt, sales are expected to be up mid-single digits, driven by higher F135 production and sustainment volume. For Pratt's adjusted operating profit, we expect growth of between \$225 million and \$325 million versus the prior year. This is driven by drop-through on higher commercial aftermarket and military volume and cost reduction efforts across the business, partially offset by increased commercial OE deliveries and mix.

Turning to Raytheon. We expect sales to grow mid to high single digits on both an adjusted and organic basis, principally driven by growth across land and air defense systems. Raytheon's adjusted operating profit is expected to be up between \$200 million and \$300 million versus the prior year, driven by drop-through on higher volume, favorable contract mix and improved net productivity.

In addition to the segment outlooks, we've included guidance for pension and some of the other below-the-line items in the appendix of our earnings presentation. All in, 2026 is expected to be another strong year of financial performance for RTX with all three segments delivering growth in organic sales and operating profit with continued margin expansion and solid cash conversion.

Okay. With that, I'll hand it back over to Chris to wrap things up.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Okay. Thanks, Neil. Looking at our 2025 results, it's clear we have built great momentum across RTX, delivering both top and bottom line growth throughout a dynamic year. I want to thank all of our employees across RTX for their hard work, dedication and commitment to our mission that led to these results.

As we move into 2026, our strategic priorities remain consistent. We are committed to making the right investments in the business to support the favorable long-term demand we see and drive sustainable growth this year and beyond. With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Peter Arment, Baird.

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

Hey, thanks. Good morning, Chris, Neil, Nathan. Nice results and congrats on all the momentum in the business, Chris.

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

Hey, thanks very much Peter.

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

Yes -- so many topics here to talk about in '26, but I guess I want to start with the GTF fleet management plan. It's year three here and your financial and technical outlook has remained on track the entire time. Maybe can you give us the latest kind of update and any key items we should expect going forward with the plan?

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

Yes. You got it, Peter. And you're right, Peter. I always start this way. Our financial technical outlook remain on track and consistent with our prior comments. AOGs did come down in Q4, and they're down over 20% from the highs of 2025. So making good progress there. As I've said before, MRO output remains the key enabler, and that continues to improve.

The PW1100 output, as we said upfront, was up 26% last year, and that was with heavier shop visits increasing 40% year-over-year. So really good improvement in the shops. And importantly, we exited the year on a strong note. Output was up 39% in the fourth quarter, which included a 16% reduction in turnaround time and a significant increase in repair volume, which, as you know, takes some pressure off of the need for new material.

So all in, this positions us pretty well to grow MRO output at a similar level in '26, which in turn enables us to continue to reduce AOGs throughout the year, continues to be our top priority, making sure we get the fleet in a better condition, and we're making progress there.

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

Appreciate the color, thanks, Chris.

Operator

Ronald Epstein, Bank of America.

Ronald Epstein - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Yes, hey, good morning, guys. Kind of like Peter alluded to, it's sort of like everything everywhere all at once so far this year, and we're only a couple of weeks in. Maybe broadly, Chris, how are you thinking about -- I mean we got this executive order about how defense companies should deploy capital.

RTX was highlighted in a social media post by the administration. How are you broadly thinking about that? And what's it mean to you as a manager of the business? How do you handle all that?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. Thanks for the question, Ron. Let me break it down in a couple of parts here. Number one, we understand that our products are critical to national security and security of our partners and allies. And I can tell you, across the organization, we absolutely feel the responsibility and urgency to deliver more and to deliver it faster. And candidly, we understand the frustration.

And I can tell you, our focus and resources are fully aligned with the Department's mandate to ramp production and invest in capacity. And as we said upfront, we made some progress in 2025. I think some very good progress. Output was over -- up over 20% on a number of the critical programs, but there's more to do. We expect to significantly increase output again this year, and we're also going to increase our capex to enable that ramp.

As it relates to capital allocation, again, we recognize our shareholders rely on our dividends, and they've come to expect our dividends. We've been paying them for decades on a quarterly basis. So we remain committed to the dividend.

That said, again, we're comfortable we can accommodate both that and the investment needs that come with delivering the current backlog and the potential future volumes on key programs. And I can tell you that we continue to have active and constructive engagement with the Department on its future needs and how we can fulfill those and strengthening the industrial base. So we've got to do it all.

Ronald Epstein - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Got it, thank you.

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - Morgan Stanley - Analyst

Hey, good morning, everyone. Maybe, Chris, Neil, RTX is now the largest aerospace defense company in the world by sales. And we're living in a very dynamic period, seeing unprecedented demands for your products, but also unique actions from the government where they're willing to invest in supporting capex.

I guess, like how are you thinking about the portfolio composition and potential monetization for shareholders given the recent move from one of your competitors where they're carving out a Mission Solutions business, receiving a \$1 billion investment from the government with an IPO in the second half of the year. How do you think about your portfolio? And where do you see the opportunities?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. Thanks, Kristine. I'll start. Again, I continue to believe -- we continue to believe and have strong conviction that RTX is constructed to meet the moment. By the moment, I mean the ramp both in defense and commercial and to drive long-term value for customers and shareholders.

And I've said this before, our breadth and scale provides a competitive advantage in our mind in terms of technology, cost structure, customer and market knowledge and talent. And as you know, in this industry, you make big bets on large platforms, and that requires a strong balance sheet, an ability to innovate and invest over the long term and the ability to manufacture at scale for a sustained period of time, all things that are within the RTX core competency.

And you're also starting to see this convergence of commercial and defense tech, you're seeing a lot of that given the transformation initiatives that the Department of War is pushing forward. And I think we're just uniquely positioned to compete in that environment. And I think that provides us a real opportunity as opposed to perhaps some of our competitors. And as we said before, we're going to continue to invest, and we've got the balance sheet to continue to invest in the capacity and in technology to meet both the current backlog and the programs of the future.

Kristine Liwag - Morgan Stanley - Analyst

Thank you for the color.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - Vertical Research Partners LLC - Analyst

Thanks very much. Good morning.

Neil Mitchill - RTX Corp - Chief Financial Officer

Good morning, Rob.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Hey Rob.

Robert Stallard - Vertical Research Partners LLC - Analyst

Probably a question for Neil regarding the 2026 guidance. Your forecast for Pratt & Whitney, particularly on the OEM side, looks a bit conservative, particularly given what Airbus is planning on the A320 and A220 going forward here. So I was wondering if you could perhaps delve into the components a bit more, particularly on aerospace OEM.

Neil Mitchill - RTX Corp - Chief Financial Officer

Yes. Thanks, Rob. I appreciate the question. Let me give you a little bit of color. I think it's important to kind of see what's underneath the covers there on the Pratt side. I would start by saying in 2025, we had our large commercial engine deliveries up 6%, as Nathan said. As we think about 2026, I think the large commercial engine output in terms of deliveries is likely to be up call it, mid to high single digits.

So it's growing on top of the number that we put up for 2025. We've talked at length for a number of years about the mix in the OE and balancing the need to support the flying fleet today as well as installs at Airbus. And we think we put together a plan that does just that. And so we will see continued growth on the MRO side at Pratt that will support the GTF aircraft in particular. And the rest will go between Airbus and spares.

I think if we look inside of the install side, we still see growth on both the installs and probably flattish on the spare engine deliveries for 2026. So a little mix headwind on the top line, but in terms of output, strong output throughout the course of this year. If it's better, you'll see that, but we're really trying to make the right balancing decisions between MRO and install. And Chris has a couple of other things --

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. No, I'd just add a couple of other notes here. Again, our 2025 total deliveries were up over 50% versus 2019 levels. I think that's important to continue to reinforce. And as Neil said, we're always going to try to support our customers. There's a balance that we've got to bring to bear given what's going on with the fleet. But the backlog on the program is very strong.

And we've got key investments coming online over the next 24 months to continue to support it, a new powder metal tower, new forging press, some additional capacity in Asheville, where we do turbine airfoils. So we're 100% in support of continuing to drive deliveries on the program over the long term because the backlog is there and the customer demand is there.

Robert Stallard - Vertical Research Partners LLC - Analyst

That's great, thanks so much.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

You're welcome.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - Deutsche Bank AG - Research Analyst

Hey, good morning. Neil, why does Pratt commercial aftermarket growth slow to high single digits in 2026, particularly given the strength you saw here in the fourth quarter and then the commentary on GTF MRO volumes. And then for Chris, I was wondering if you might give us an update on when you expect castings output to begin to ramp up at Asheville.

Neil Mitchill - RTX Corp - Chief Financial Officer

Yes. Thanks, Scott. I will start with the Pratt. I'll fill in where I left off. We were talking about the OE side. About 70% of Pratt's growth in '26 is going to come from commercial aftermarket. We talked about that being up high single digits. If you kind of look at the pieces here, I'll start with Pratt Canada.

We'll see growth in their aftermarket that's in the high single-digit range. So very solid there, growing ahead of RPKs in the market. Within the large commercial engine business, on a V2500 shop visit basis, we talked last year about doing 800 or so shop visits. We probably did a little bit more than that. I think for 2026, we're expecting it to be more or less the same, probably within 20 shop visits of 2025, so steady and above 800.

There's a little bit of an offset on the PW4000s and 2000s as those older engines start to retire. Those are expensive overhauls, and we're seeing a little bit of headwind there, probably about \$100 million for 2026, all things that we saw coming and we planned aligned with our customers' fleet plan. So inside of the aftermarket, those are a couple of moving pieces on the legacy side of the business.

And of course, the GTF aftermarket is continuing to grow, as you point out. Chris talked about stepping up again similar to the growth level that we saw in 2025. The shop visit content varies, though they're getting heavier. And so we will see that in the top line. Maybe just a comment on the profitability there. We've seen solid margins and progression on the GTF aftermarket.

I'd call it, low double-digit kind of margins. We see one to two points maybe of expansion here in '26. So that GTF aftermarket revenue stream is moving in the right direction as we get further away from entry into service and start to put in new contracts and gain the durability improvements that we've talked about and the pricing in the contract structures.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. And Scott, maybe on the second part of your question on the casting piece. So the casting foundry investment has been approved. We've moved out on that investment. We're in that sort of buildup phase and working to make sure the yields are where we need them so that when we're going into production, we're getting the yields that we need. And I think that impact we'll start to feel that more in the '28, '29-time frame.

Scott Deuschle - Deutsche Bank AG - Research Analyst

Thank you very much.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

You're welcome.

Operator

Myles Walton, Wolfe Research.

Myles Walton - Wolfe Research LLC - Analyst

Thanks, good morning. This might be for Neil. So Neil, could you pull back the covers on the Raytheon segment in terms of the growth rates of maybe some of the larger SBUs? I heard the comment about the 20% growth in some of the effectors, but maybe just a little bit of color

there. And then, Chris, following the comments by the administration, have you engaged to change any behavior? And if so, what is it that they're requesting?

Neil Mitchill - RTX Corp - Chief Financial Officer

Great. Thanks, Myles. I'll start here. As I pointed out in our opening comments here, the majority of that sales increase is coming from the land and air defense systems business. I'd say over half of it, frankly. Obviously, that's supported by material growth. We've seen 11 consecutive quarters of growth. We're expecting mid to high single-digit growth in material again here in '26.

That's the heart of the Raytheon business, obviously, on the munitions and the sensors. So that's where the bulk of it is coming from, supporting programs that you all know about Patriot, GEM-T, LTAMDS, et cetera. I think importantly, for Raytheon, about 85% of our '26 sales are sitting in our backlog today.

So feeling very confident in the outlook that we put out today for them. And as I think about the rest of the year, we should be able to fill that remaining 15% nicely. And it's all about coordinating the supply chain and getting things synchronized, which we're seeing continued improvement in over the last 12 to 18 months. Chris?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. So Myles, I would say that we're obviously fully supportive of the transformation initiatives that the Department is pushing forward. And we are working in partnership with them on ways to move output faster and to accelerate, whether that be through different requirements or testing protocols or anything within our shop that can make things more efficient in partnership with the customer.

We're also talking to them about how do we get the most out of our existing capacity, what suppliers do we need help with, whether that be from a throughput perspective or an investment perspective, and then again, where do we need to invest in capacity as we see the demand continuing to ramp. So it's a partnership on a number of fronts. It's been very constructive and collaborative. And we're going to, I hope, start to see the benefit of that here in '26 as we've got to continue to ramp on some critical programs.

Myles Walton - Wolfe Research LLC - Analyst

All right, thank you.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - JPMorgan Chase & Co - Analyst

Hey, thanks very much and morning, everyone, so I wanted to ask another one about defense and maybe a slightly different topic. But in terms of missile defense and the Golden Dome initiative, we understand that the administration is looking for contractors to step out a little bit more there in terms of fronting our R&D to be involved in that effort, particularly with space-based interceptors.

And wondering how you're thinking about that given both Raytheon's traditional capabilities in missile defense, but also a pretty full plate in terms of ramping up some of the existing programs.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. Thanks, Seth. Overall, we're looking at Golden Dome as a real opportunity for us. If you just step back and look at what we continue to believe is the multilayered architecture, we believe we've got solutions at each of those layers. And you know those systems very well, whether it be Patriot, whether it be GEM-T, SPY-6, Coyote and the like.

So between effectors and sensors have a full suite of products that we think can meet the needs of Golden Dome. I think there are also some opportunities in space. I can't talk about them too much. But again, I think we've got some unique capabilities there that we're discussing with the Department.

And as with all things, we're always looking at the opportunities for us to increase capacity for some of this demand. As you know, there are long lead time items in some of these areas. There are suppliers that we need to continue to sort of rejuvenate and make sure that they can meet the demands that we need. So all of those things are going on, identifying a long lead material we might need, everything that will help us accelerate production. So when those awards come down, we're ready.

Neil Mitchill - RTX Corp - Chief Financial Officer

Seth, I would just add that with respect to the investment and our willingness to invest, we, of course, would invest in good business. And so we're prepared to make the right choices there. Our R&D for 2026 is going to approach \$3 billion with a healthy portion of that sitting in Raytheon, obviously. So we're prepared to make those investments when it makes sense to do so.

Seth Seifman - JPMorgan Chase & Co - Analyst

Great, thanks very much.

Operator

John Godyn, Citi.

John Godyn - Citibank - Analyst

Hey guys, thanks for taking my question. All the businesses are experiencing tailwinds, and it's been quite a good run for the last few quarters. I know it can be hard to pick your favorite child, but I was hoping you could just help us sensitize the outlook a bit in the context of the segments. Which one do you think has the most scope for exceeding guidance based on the demand signals that you're seeing recently?

Neil Mitchill - RTX Corp - Chief Financial Officer

So I'm going to give this one to Chris. Actually, I'll answer it, John. It's obviously early in the year, and we love all of our children here at RTX. So I think all three businesses have tailwinds behind them, frankly. I think it's early in the year. We set our guide based on where our backlog sits today. We've got a number of initiatives that are obviously in the pipeline here in terms of cost reduction.

So when I think about Collins, in particular, they've kicked off a pretty significant transformation effort there to drive cost out of both the production side as well as the back office. So I see tailwinds supporting the Collins margin trajectory. If I go to Raytheon, we've talked a lot about it already this morning, the defense business, the demand, the productivity improvements that we're seeing in Raytheon, we've seen about \$160 million year-over-year improvement for each of the last two years.

Now that may tail off a little bit. We'll see probably another \$25-or-so million of year-over-year improvement. But we're in the zone where we're seeing positive productivity coming out of the Raytheon business. And that's because of the significant volume the synchronization with the supply chain and the continued execution mode that we're in there. So that's how I kind of think about the Raytheon business.

And over at Pratt, obviously, there's a ways to go there, but we know that the GTF program is growing significantly. We're performing well. We're growing out of the older contracts. We're getting pricing and the legacy businesses continue to be intact there, and we see that staying steady for the next several years. So great businesses, hard to pick one. But clearly, all of them have margin potential over the next several years, and that's what we're focused on.

And I think if we execute and deliver the backlog we have today, then we'll naturally see that margin expansion over the next couple of years. Importantly, that will convert to cash. And you're seeing that in the '26 outlook. We saw it as we exited '25 exceeding where we had thought we would exit the year on strong collections. So really good position to be in. And again, it affords us the opportunity to take on that extra investment to build for the future capacity that's not even yet sitting in our backlog.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Chris. I think you said it really well, Neil. And the only thing that I would emphasize, John, is that each of the businesses is fully focused on getting to its full potential. I will tell you that Neil outlined some time frames for each of those. Some are closer, as you might imagine, but all dedicated to driving operational improvement through CORE, structural cost reduction, and a maniacal focus on execution given the backlog.

John Godyn - Citibank - Analyst

Thanks a lot, guys.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - Cowen and Company LLC - Analyst

Thanks. Good morning. I had two quick ones. One, a follow-up to the prior question, just on Raytheon defense, productivity, and you also have higher volumes and better mix over time with the foreign backlog conversion into sales. So what's your updated thoughts on eventual margin entitlement for that segment?

And then I wanted to just ask on GTF. Could you remind us again in the guidance for '26, what the cash customer compensation payments are? And if there's going to be any tail to that in 2027? And if you could just give us the final number for 2025.

Neil Mitchell - RTX Corp - Chief Financial Officer

Thanks, Gautam. Let me start with the last question. So in our outlook for 2026, we have \$700 million placed as the cash outflow. We exited 2025 with \$1 billion. So cumulatively, we're at \$2.8 billion when you get through the end of 2026. We had talked about that being about a \$3 billion cash headwind to us over the period of time we execute the FMP. So that leaves a couple of hundred million dollars.

As I sit here today, we've been very prudent in our management of the compensation. We've got agreements with customers and very, very disciplined there. So that's how I see it today in good shape for the 2026. As it relates to the Raytheon margin potential, we're exiting 2025 strong. Our outlook for 2026 puts us pretty close to the 12% range that we've talked about.

And as you pointed out, the international mix is increasing. Today, our backlog has about 47% international mix in it, and we expect the sales mix to grow. I will say, as we talk about increasing our capacity for munitions and sensors, that will have a different sort of mix impact as well. But there's no reason to believe that the Raytheon margins can't be north of 12%, and we're certainly well on our way in this outlook that we put out today.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

The other piece of tailwind that I would add there to Neil's comments is if you just look at the backlog composition. Neil talked about the international component. But if you just -- if you think about the products that are continuing to grow in that backlog, those are products in our core competency, mature products, that are going to continue to help drive productivity and improve margins.

And when you think about where some of this future demand is as part of this defense transformation, whether it be the effectors, Golden Dome, again, these are going to be the products in integrated air and missile defense that are core to Raytheon.

Gautam Khanna - Cowen and Company LLC - Analyst

Thank you.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Good morning, guys and thank you. I wanted to ask about Collins because I feel like it's a bit forgotten given everything else going on. Collins embeds 70 basis points of margin expansion, 40 basis points of that is the divestiture benefit, so only 30 bps organically.

But it seems like there's a lot of good things going on in the segment, whether it's double-digit OE narrow body growth, which I presume is in line with segment margins, 10% aftermarket productivity plan in place. Maybe if you guys could bridge us and obviously, a full year of tariffs is maybe some of that offset.

Neil Mitchell - RTX Corp - Chief Financial Officer

Thanks, Sheila, for the question. So let me start with '25. You're right, we had about 30 basis points of margin expansion there. I would tell you that from a tariff perspective, that was a 90 basis points drag. So if you were to add that back, we saw Collins, I'll call it, organic margins at 17.1%, which was really, really nice to see. Obviously, we're still living with the tariff situation.

We do expect to see a bit of a tailwind as we move from 2025 to 2026 on tariffs, probably about \$75 million lower. And keep in mind, we're picking up an extra quarter of tariff expense in 2026. So the first quarter will be a little bit depressed on the Collins margins as they pick up an extra quarter. But nonetheless, still seeing really good margin expansion there.

As you go to 2026, inclusive of tariffs, we're going to see another 80 basis points of margin expansion at the midpoint. As I said a couple of minutes ago, Collins has a ton of effort going into digitizing the back office, streamlining their footprint, and we're seeing the benefits of that cost reduction activity already come through in these margins.

And I think that there are several years of benefits ahead of us as a result of the work they're doing. So we are seeing that improved drop-through. Obviously, in '26, we've got OE growing about 10%. Those margins are probably consistent with what you'd expect for sort

of a defense kind of margin, low double digits and some really robust aftermarket, about 45% of their growth coming from the aftermarket business with the kind of drop-through that you'd expect in the business at Collins.

So well, positioned, growing installed base, RPKs are strong, and we're getting the pricing benefit, too, that we've been pushing for in light of these headwinds we've been dealing with over the last couple of years.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Got it thank you.

Neil Mitchill - *RTX Corp - Chief Financial Officer*

You're welcome.

Operator

Douglas Harned, Bernstein.

Douglas Harned - *Sanford C Bernstein & Co LLC - Analyst*

Good morning. Thank you. When you look at the GTF right now, I mean, you talked about how AOGs are coming down off that peak. The other thing going on at Pratt is, as you talked about, you've got increasing work scope on V2500s, which is very good for margin. You've had -- you're getting life extensions.

But how should we think about the longer-term margin at Pratt? Because on one hand, you have that benefit, but as AOGs start coming back, you may have two other effects, which are you may see some PW1100-powered airplanes lead to parking of some V's and you're going to have some decline in spare engine ratio. So how should we think about combining all of those things for the long-term Pratt margin?

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

Yes. I'll start, Doug, and Neil feel free to chime in. You're right on a number of those tailwind components, Doug. The V2500 is going to continue to be strong. Shop visits are going to stay in that 800 range and the content is going to continue to be strong. We see low retirements there, a lot of continued demand for that platform.

When you think about the margin trajectory at Pratt, obviously, there's going to be some headwind associated with continued OE deliveries. You know that -- what that margin profile sort of looks like there. But we're also continuing to grow the GTF in the installed base. And so a big part of this is going to be continuing to drive GTF aftermarket margins. And so how do we go and do that?

Well, number one, you know we've put in place a number of durability improvements. A number started going in last year, and you can start to see that benefit throughout the fleet. You've got the GTF advantage that's going to be coming into play. We got the EU engine certification in Q4, expect the aircraft certification relatively soon.

We started producing that engine and that production cutover and expect EIS on that later in the year. And then the third piece, and it's related to the GTF advantage, is that we're also anticipating the incorporation of our hot section plus retrofit package into MRO later this year. That's 90% to 95% of the durability benefits of the GTFA and that's going to be going into the installed base today as part of that retrofit package. So it's going to be the GTF aftermarket that's going to need to continue to grow in profitability that will take the margins up at Pratt.

Neil Mitchell - RTX Corp - Chief Financial Officer

And maybe just to add a couple of points, Doug. I think with respect to the size of the fleet, today's GTF fleet is about the same size. In fact, I think it's a little bit larger than the installed flying V2500 fleet. So sort of to compensate for what will ultimately be retirements as you look out a number of years, that GTF fleet is just growing at a really significant rate.

And so that will overcome sort of lost revenues and profits that we'll see on the V2500 as it retires. As it relates to the spare engines, I mean, you talk about the ratio. I think another way to think about that might be there's just going to be continued demand for spare engines. So again, as that fleet gets bigger, while the ratio might come down, we'll still be selling a lot of spare engines, and I expect that to be a continued steady stream of revenue and profits.

And what we like about that, of course, is it helps the fleet, which helps the aftermarket contracts, but it also generates its own aftermarket because those engines will ultimately come in for overhauls as well. So that's how I would frame a couple of the data points behind what Chris said.

Douglas Harned - Sanford C Bernstein & Co LLC - Analyst

Very good, thank you.

Operator

Scott Mikus, Melius Research.

Scott Mikus - Melius Research LLC - Equity Analyst

Morning Chris, Neil, very nice results and solid guide. I wanted to touch on Ron's and Myles' question. This administration seems more willing to allow M&A deals to go through. They also want defense companies to invest ahead of contract awards and expand capacity.

But I've always just thought that the primes get somewhat unfairly blamed because a lot of the bottlenecks to higher production actually lie deeper in the supply chain. So does it make sense from a capital deployment perspective to pursue vertical integration at Raytheon, whether it's organic or inorganic?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yes. Thanks for the question, Scott. And again, when we talk to the Department, I will tell you that we are -- our supply chain. They pay us to manage our suppliers and deliver whether it be an all up round or a full system or whatnot. So again, we've been working in partnership with them on how do we continue to strengthen the industrial base because to take production to the levels that the Department needs, you're just going to need to continue to invest in that industrial base and bring new suppliers into the fold.

And that's where I think I'd sort of direct your second part of your question. I don't necessarily think it's about vertical integration. I think about strengthening what we have today and bringing new sources into the industrial base. You've seen there's been a number of activities and investments on solid rocket motors, for instance, because that has continued to be a bottleneck for the industry at large.

We continue to look for other casting suppliers because that affects not only what's going on in commercial, but defense as well. So I think it's really about infusing more capital into the supply base, strengthening that supply base and then finding new suppliers in some of the constrained value streams.

Scott Mikus - *Melius Research LLC - Equity Analyst*

All right, thank you.

Operator

Matt Akers, BNP Paribas.

Matthew Akers - *Exane Bnp Paribas - Analyst*

Yeah, hey, good morning. Thanks for the question. Most of might have been answered, but I just want to ask about debt maturities, a fair amount coming due this year. Just curious what your plans are to address those.

Neil Mitchell - *RTX Corp - Chief Financial Officer*

Yes. Thanks, Matt. Appreciate the question. We've talked for a couple of years now about our debt repayment priorities. We made a payment of \$1.1 billion in the fourth quarter. And we've got about \$3.4 billion of payments that are coming due this year that we anticipate to make and bring that debt down further.

So that's what I would say today about our plans for paying down the debt that's on the balance sheet. We're making great progress. As Chris said, balance sheet is really strong and positions us well for continuing to make the investments that we've talked at length about today.

Matthew Akers - *Exane Bnp Paribas - Analyst*

Great, thank you.

Operator

And with that, I will now turn the call back to Nathan Ware.

Nathan Ware - *RTX Corp - Vice President of Investor Relations*

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

Operator

Ladies and gentlemen, this now concludes today's conference. You may now disconnect.

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