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RTX.N - Q2 2026 RTX Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the RTX second-quarter 2026 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 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 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.

Once the call becomes open for questions, we ask that you limit your first round to one question per caller to give everyone the opportunity to participate. (Operator Instructions)

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

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you, and good morning, everyone. We delivered another strong quarter of performance and financial results across RTX, driven by our continued focus on execution. Starting with the top line, adjusted sales were $24.7 billion, up 16% organically, including double-digit commercial aftermarket and defense growth. Adjusted EPS of $1.89 was up 21% year over year, driven by 18% growth in segment operating profit. And free cash flow was strong at $2.9 billion.

Across RTX, we continue to see exceptional demand for our products and services. Our backlog stands at yet another record of $289 billion, up 22% year over year and 6% sequentially. Raytheon booked nearly $20 billion of awards, resulting in a book to bill in Q2 of 2.4. These bookings included over $5 billion of GEM-T Patriot effectors driven by international customers and our first domestic GEM-T production order in over 30 years. Raytheon's bookings also included over $4 billion of classified and confidential awards, as well as $1.8 billion for AMRAAM.

On the commercial side of the business, demand also remained strong as evidenced by our continued growth. In Q2, we received over $20 billion of OE and aftermarket orders. Notably at Pratt, AirAsia placed an order for 150 A220 aircraft, which are exclusively powered by GTF engines, adding a new GTF operator and further expanding our installed base in a key growth region. And Collins signed a new five-year agreement with Air New Zealand to provide MRO services for engine nacelles on their full fleet of 787 aircraft. So overall, a very strong quarter that builds on our momentum from Q1.

Okay, let me turn to the current operating environment as we look ahead to the back half of the year. Across commercial aerospace, aftermarket continues to be strong and passenger air travel remains resilient. For the year, global RPKs are expected to grow in all regions outside of the Middle East and engine retirements have remained relatively low, both factors that support our outlook for strong commercial aftermarket growth this year.

Airframers also continue to cite strong demand with further rate growth expected in the second half of the year, driving the need for our OE products across narrowbody, widebody, and business jet platforms. On the defense side, our significant awards in the quarter reinforced the global needs for our proven capabilities.

Domestically, we're encouraged to see bipartisan support for a significant increase in 2027 defense spending. The base budget request of $1.1 trillion represents a roughly 25% increase year over year, along with meaningful increases in funding for RTX priority programs, including Tomahawk, LTAMDS, and Standard Missile.

And of course, we continue to work closely with the Department of War to advance the framework agreements we signed earlier this year into contracts to increase critical munitions output for our customers. On the international front, the need for integrated air and missile defense systems remains very strong. In the first half of the year, Raytheon booked over $10 billion of international awards, which is up more than 2x year over year, including over $7 billion from our European customers.

So based on our first-half execution and the demand strength we're seeing across our commercial and defense markets, we're raising our full year outlook for adjusted sales, EPS, and free cash flow.

Neil will take you through the details of the second quarter and our updated outlook in a few minutes. But first, let me provide an update on our strategic priorities across RTX on slide 4. The first is operational execution. We continue to use our CORE operating system and digital solutions to increase output and deliver our backlog. On the GTF fleet management plan, our financial and technical outlook remains on track.

PW1100 AOGs are down again sequentially and down 25% year to date, and we expect AOGs to keep trending lower throughout the second half of the year. The improvement is driven by MRO output, which was up over 40% year over year, supported by a 23% reduction in turnaround time.

At Raytheon, we've more than doubled year over year output across our critical munitions through the first half of the year. Additionally, our Coyote counter-UAS effector, which has been deployed by both the U.S. Army and Navy, has been incredibly effective in the field and is in high demand. As a result, we have more than doubled output on this important program. And across RTX, our connected factory network now includes over 30 million annual manufacturing hours in our proprietary data and AI platform, up 30% since the end of 2025. This platform is strengthening our operational performance by enabling faster cycle-times, better quality, and improved decision-making.

Next is innovation for future growth. We continue to make focused investments to meet long-term global demand faster, including increasing capacity across RTX. For example, Raytheon is investing an additional $100 million domestically to increase GEM-T component production and accelerate LTAMDS test capabilities to meet the growing global need for this 360-degree sensor. We're also coordinating with the U.S. and our allies to expand global production capacity. Just this month, Raytheon announced a collaboration with multiple NATO nations to identify additional European suppliers for AMRAAM components to accelerate deliveries of this critical munition.

On the commercial side, Pratt announced additional investments of more than $100 million in the US to expand GTF MRO capacity across multiple sites in Texas, Florida, and Arkansas. These investments will support new automation and repair capabilities to increase shop throughput. And at Collins, we continue to expand our footprint in growth regions. In the quarter, we completed a commercial MRO expansion in Malaysia that will significantly expand capacity and bring more advanced and automated MRO capabilities.

On the technology front, we achieved several key milestones in the quarter. Collins was down-selected to deliver their Mission Autonomy software for the U.S. Air Force's Collaborative Combat Aircraft program. This type of autonomy will be critical in next-generation fighter development to maximize manned and unmanned teaming.

Pratt received aircraft certification for the GTF Advantage engine and started its deliveries to Airbus. As a reminder, the Advantage will double the time on wing performance and is fully interchangeable with the current GTF fleet. We expect entry into service later this year and full production cutover in 2028.

And at Raytheon, the team is utilizing a modified TJ150 engine from Pratt to develop a new longer-range variant of our precision-guided-air-launched StormBreaker effector. This cross-company initiative has moved from concept to an upcoming flight test in less than 12 months to support delivering this new capability. So overall, we continue to make good progress across our strategic priorities as we execute and innovate for our customers.

Okay, with that, let me turn it over to Neil to take you through the second quarter results and our updated outlook in more detail. Neil?

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

All right. Thank you. I'm on slide 5. In the second quarter, adjusted sales of $24.7 billion were up 14% on an adjusted basis and 16% organically year over year. This strong organic growth was driven by all three channels with commercial OE up 9%, commercial aftermarket up 18%, and defense up 16%. Adjusted segment operating profit of $3.2 billion was up 18% year over year, primarily driven by the drop through on higher volume. And segment margins expanded 40 basis points in the quarter, with contributions from all three segments.

Adjusted earnings per share of $1.89 was up 21% from the prior year, driven by the strong segment operating profit growth I just mentioned. On a GAAP basis, earnings per share from continuing operations was $1.57 and included $0.27 of acquisition accounting adjustments and $0.05 of restructuring and all other non-recurring items.

We generated $2.9 billion of free cash flow in the quarter, driven by segment profit growth, increased engine deliveries at Pratt, and advanced payments from international customers at Raytheon. And powder metal related compensation was approximately $150 million.

Lastly, we entered into an agreement to sell Raytheon's Blue Canyon Technologies business for $620 million as we continue to focus on our core capabilities. So overall, I'm pleased with our strong financial performance through the first half of the year and our continued execution across the business.

Okay, let's turn to slide 6, and I'll take you to our updated outlook for the full year. As Chris said upfront, we are updating our full year outlook based on our first half performance and our strong backlog position. On the top line, we're raising our full year adjusted sales outlook by $2.5 billion to a new range of $95 billion to $96 billion, up from our prior range of $92.5 billion to $93.5 billion.

The majority of the sales increase is driven by the performance we're seeing in our defense channel across the company, primarily at Raytheon, as well as higher GTF aftermarket volume at Pratt. Additionally, we're seeing strength in commercial OE at Collins, which is also reflected in this increased top line outlook.

This translates to full year RTX organic sales growth of between 8% and 9%, up from our prior range of between 5% and 6%. Breaking this down further, we now expect commercial OE sales to grow mid to high-single digits, up from the prior expectation of mid-single digits, primarily attributable to the production ramp at Collins.

Within commercial aftermarket, we now expect sales to grow low-double digits across the company this year, up from our prior expectation of high-single digits, driven by the strength at Pratt that I mentioned earlier. And with respect to defense sales, we now see growth of high-single digits, which is at the higher end of our prior range of mid to high-single digits. This improvement is principally driven by the first half performance and continued execution at Raytheon.

On the bottom line, we're increasing our outlook for adjusted earnings per share by $0.40 on the low end and $0.35 on the high end. We now see adjusted EPS of between $7.10 and $7.25 for the full year, up from our prior range of $6.70 to $6.90.

At the midpoint of our updated outlook, this increase is driven by approximately $0.26 of higher segment operating profit, principally from the net drop through on the higher volume across the segments, as well as favorable defense mix and improved productivity primarily at Raytheon. We're also seeing improvement in some below-the-line items, and we've provided an updated outlook for these items in the appendix of our webcast.

Finally, we now expect free cash flow to be between $8.5 billion and $8.75 billion for the full year, up from our prior range of $8.25 billion to $8.75 billion, primarily driven by higher segment operating profit.

With that, I'll hand it over to Nathan to take you through the segments in more detail. Nathan?

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

Thanks, Neil. Starting with Collins on slide 7. Sales were $8.2 billion in the quarter, up 8% on an adjusted basis and 13% organically, driven by strength across all channels. Adjusting for divestitures by channel, commercial OE sales were up 26%, driven by higher volume on narrowbody and widebody platforms. Commercial aftermarket sales were up 10%, driven by an 11% increase in parts and repair, an 11% increase in mods and upgrades, and a 7% increase in provisioning.

Defense sales were up 7% versus the prior year, driven by higher volume across multiple programs. Adjusted operating profit of $1.4 billion was up $121 million versus the prior year, driven by drop-through and higher commercial and defense volume. This was partially offset by defense mix, higher SG&A expense, and the impact of divestitures completed in 2025. In the quarter, Collins expanded margins by 30 basis points year over year.

Turning to Collin's full year outlook, based on the continued commercial OE production ramp and defense strength, we now expect sales to grow mid to high-single digits on an adjusted basis, up from our prior range of mid-single digit. And organically, we now expect high-single digit to low-double digits growth, up from our prior range of high-single digit.

With respect to operating profit, we now expect growth between $550 million and $625 million versus 2025, up from our prior expectation of between $425 million and $525 million, driven by drop through on increased sales volume and ongoing cost reduction initiatives.

Shifting to Pratt & Whitney on slide 8, sales of $8.9 billion were up 16% on an adjusted basis and 17% organically, driven by strength in commercial aftermarket and military. Recall that Q2 2025 was impacted by a four-week work stoppage.

Commercial OE sales were down 8% as increased engine deliveries were more than offset by large commercial engine mix. And commercial aftermarket sales were up 25%, driven by higher MRO volume. In military engines, sales were up 23%, driven by higher F135 volume. This year over year increase benefited from the timing of the F135 Lot 18 contract award, which was received in Q3 of last year.

Adjusted operating profit of $740 million was up $132 million versus the prior year, driven by drop through on higher commercial aftermarket and military volume, as well as military mix. This was partially offset by increased engine deliveries, large commercial engine mix, and higher SG&A expense.

In the quarter, Pratt expanded margins by 30 basis points year over year. Turning to Pratt's full year outlook, we now expect sales to grow high-single digit on both an adjusted and organic basis, up from our prior range of mid-single digit due to the strength in commercial aftermarket, partially offset by commercial OE mix.

With respect to operating profit, we now expect growth between $275 million and $350 million versus 2025, up from our prior expectation of between $225 million and $325 million, primarily driven by drop through on increased sales volume.

Turning to Raytheon on slide 9, sales of $8.3 billion in the quarter were up 18% on both an adjusted and organic basis, driven by higher volume on land and air defense systems, naval programs, and air and space defense systems, including Patriot, Standard Missile, and AMRAAM. Adjusted operating profit of $1 billion was up $234 million versus the prior year, driven by higher volume, favorable mix, including Patriot programs, and improved productivity.

In the quarter, Raytheon expanded margins by 100 basis points year over year. Bookings in the quarter were $19.9 billion, resulting in a book to bill of 2.42 and a backlog of $86 billion. On a rolling 12-month basis, Raytheon's book to bill is 1.77, and Raytheon's backlog is now 48% international, up 4 points year over year. In addition to the awards Chris mentioned earlier, other key awards in the quarter included $1.1 billion for AIM-9X and approximately $800 million for LTAMDS.

Turning to Raytheon's full year outlook, we now expect sales to grow high-single digits to low-double digits on an adjusted and organic basis. This is up from our prior range of high-single digit due to the strength Neil mentioned. And we now expect operating profit to grow between $575 million and $650 million versus 2025, up from our prior expectation of between $275 million and $375 million, driven by the drop-through on increased sales volume, favorable program mix, and improved productivity.

With that, I'll hand it back over to Chris for some closing remarks.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Okay, thanks, Nathan. We drove very strong financial performance in the first half of the year and are confident in our updated full year outlook, and I want to thank the entire RTX team for their commitment to our mission.

We have strong conviction in the long-term demand across our commercial and defense markets, and we believe that RTX is exceptionally well positioned with leading franchises, a growing installed base, a record backlog, and the scale to invest in capacity and technology.

Our focus will remain on executing and innovating for our customers to drive continued organic sales growth, margin expansion, and robust free cash flow this year and well into the future.

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, good morning, Chris, Neil, Nathan. Great results. Hey, Chris, maybe if you could just give us an update on the latest status with all your framework agreements or the progress that you're making there. And if you could just tie it into how you think with the budget environment, I think everyone's expectations are we start the year with a CR and how that would affect things and just latest status on both. Thanks.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, thanks Peter. Maybe I'll start with the defense budget first because that's obviously a key piece of the framework agreements. I think like many of us, we're pleased to see that the US-based budget request crossing the $1 trillion mark, that's significant. And this, plus the multi-year requests that are in there show the continued demand, I think, for years to come, a really strong demand signal.

And I know there's lots of discussions on budget amounts and mechanics, but what I can tell you as we engage with Congress is there's a bipartisan support for increased munitions and ramping in those areas, which are pretty core to our capabilities. I know people talk a lot about being aligned with the Department of War and budget priorities, but we've got pretty strong conviction that we have among the strongest claims in that regard.

I mean, if you just think about it, in terms of the global events that have reinforced the need for our systems, we've seen effective intercepts on things like Patriot, Coyote, AMRAAM, AIM-9X, and the Standard Missile family. So again, some of the most capable and effective in the world and continuing to do their job in some of the most contested environments.

And then secondly, the five framework agreements that we signed that you referenced, those will have significant demand over the next 10 years to the extent that the budget and the multi-year come home, and those aren't even in our backlog today.

So on the framework agreements themselves, Peter, we continue to engage with the Department on turning our framework agreements into definitive agreements, and that process is ongoing. I won't get too into the weeds on that, but they've been very productive and constructive conversations. And then behind the scenes, we're continuing to work all the things that we'll need to do in order to execute on those framework agreements once they get signed.

So significant engagement with the supply chain, making sure they understand what they're going to need to do, what our volumes are going to look like, what capacity we're going to need, what investments we and they are going to need to make, and we're making some of those investments today.

Also engaging with second and third potential suppliers where we have sole source positions where, frankly, we need to increase the competition and increase the capacity. Some of those are in the defense industrial base today, and some of those are outside the defense industrial base that we're engaging with who are interested in coming in as long as we can get the right volumes. So again, pretty productive conversations. We'll see how the budget ultimately shakes out. But as I said, feel really good that our products, no matter how it gets pieced together, will be a priority.

And maybe I'll just end, Peter, with -- don't forget about the international demand, still hugely significant, $10 billion of awards in the first half, with 48% of Raytheon's backlog being international. So strong domestically and strong internationally.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Thanks so much. Good morning. Neil, just a couple of quick questions on the 2026 guidance. Firstly, on the free cash flow, you didn't raise the top end of the free cash flow guides. I was wondering if timing was anything to do with that very strong performance in Q2. And then secondly, on the revenue guidance, you have raised it, but you are factoring in a slowdown in revenue growth in the second half versus the first half. I was wondering what the key drivers are there. Thank you.

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

Yeah, thanks, Rob. Good morning. Let me start with the free cash flow. Obviously, really pleased with the first half performance of cash flow. To your point, there was some timing. There always is with the free cash flow in the quarter, but I'll point to a couple of things. The first is, you'll recall last year, in the second quarter, Pratt was undergoing a four-week work stoppage that delayed some engine deliveries that therefore delayed cash collections. We've been able to, if you will, catch up on that, and so that's benefiting the second quarter.

And the other thing, to a lesser extent, that's helping the second quarter is international advances on all those awards that we got, most particularly within the Raytheon segment. So as I think about the rest of the year, clearly, we're about at the halfway mark of our full year outlook. So we feel good about the second half, but a little bit of timing there between what we had penciled in for Q3 versus Q2.

As far as the outlook, we took the bottom end of the range up $250 million to reflect the higher segment operating profit that we're putting through in our guidance updates today. That's offset a little bit by some working capital headwinds. So when we started the year, we thought we'd see a slight tailwind from working capital. As we sit here today, given we've added three points of organic growth to our outlook for the year, we're going to be building a little bit of inventory to make sure that we're prepared to deliver the continued ramp. Not only in the second half of the year, but the growth that we see coming through in early 2027.

So those things kind of offset a little bit. Again, feel good where we are, and we'll continue to monitor this as we go through the rest of the year. As far as the revenue in the second half, let me kind of share a few thoughts here. I mean, I think it comes down particularly to some comparisons, and I'll walk you through those pieces.

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For the full year, our organic sales are going to be up 8% to 9%, so very strong growth, like I just said, up 3 points from where we were. In the first half, we saw 13% organic growth, and then in the second half, you'll see in our outlook, it implies somewhere in the 5% range at the midpoint of our outlook. So still growing, still really strong, but again, some unique comparisons.

Let me start with Pratt because I think that's the most pronounced. I just talked about the four-week work stoppage, and so that happened last year in the second quarter. We caught up in the second half of '25, so you've got that comparison to deal with here in the third and fourth quarter. And also last year in the third quarter, we reached an agreement on the Lot 18 F135 engine production contract. And that brought with it some higher sales that we've been having costed on the balance sheet in the second quarter last year. And so again, that won't repeat. And so you'll have that comparison to deal with in the third quarter in particular.

And then another point I would make about the second half of Pratt, on the large commercial engines side, our install engines will continue to grow, but there'll be some lower revenue as the mix shifts more toward installs and away from spares. And in fact, we now think our OE sales for Pratt will be down in the low-single digit range as we continue to support that really strong material growth on the MRO side, and you saw that in the second quarter numbers.

On the Raytheon side, also some difficult compares. In the first half of last year, sales were up about 4%. So obviously, we had a really strong 14% first half this year. We had 9% growth in the second half of last year. So we're starting to see the material receipts normalize throughout this year. And so that's really good for getting product out the door, but it does put a little bit of pressure on the growth rate, which is still fairly robust in the mid-single digit range in the second half.

Collins is a little bit more normalized. So 12% growth in the first half, seeing in that 8%, 9% range in the second half. Again, we're continuing to ramp with our airframers on the OE side in particular. And so -- and we're also staying fairly prudent on the commercial aftermarket side. So we haven't changed our outlook there as we continue to monitor the macro situation. But again, all indications are from the orders that we saw in the second quarter for Collins that the aftermarket remains strong and our customer behaviors remain unchanged.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Great. Thank you, guys, and great quarter. Maybe you just covered a ton. Maybe if we could just tease out the puts and takes in Pratt sales growth for the quarter, aftermarket up 25%, military up 23%, OE down 8%. How are you thinking about just the contribution of each going into the full year? And on the Pratt OE down low-single digits now, what's driving that? Is it more allocation to Airbus, pricing, something else driving that headwind?

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Hey, good morning, Shiela, it's Chris. Let me start with the Pratt piece and the OE. As Neil noted, the large commercial engine deliveries were up in Q2, up 15%, so pleased with that on a unit level. The sales decrease was due to mix as, again, we continue to ensure that we have strong material flow into our MRO shops. As we mentioned, we saw a good decline in GTF AOGs, down 25% in the first half of the year. And that was really driven by very solid MRO performance.

We had 1100 output, up 43% year over year. And that was enabled by a 23% reduction in year over year turnaround time. And that was with much heavier work scope, up 14 points year over year. So really, really strong MRO performance. And we've got to continue to keep our MRO network in a very, very strong material position. We need them to be able to continue to sustain higher rates and turnaround time reductions. We've got about 15 PW1100 shops in our MRO network. And our goal here, our objective, is to continue to drive this network to consistently achieve that 90-day or below turnaround time. And we need material flow in order to do that, right?

And so we need all 15 of those shops hitting that mark at that standard so that we can continue to make this a well-oiled machine in our aftermarket network. So that was really the thought process there, making sure that they have the material that they need in order to do what they need to do and to have the performance that we need. Now I will say we're also going to continue to drive deliveries to Airbus, we'll be up in the second half of the year there and we'll deliver a record number of GTF engines this year.

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

Thanks, Chris. I would just add a couple of things or reinforce a couple of points. One is the work scope. And so as we think about the rest of the year and the total outlook for Pratt, we're taking up the top line by about $900 million at the midpoint. The vast majority of that is aftermarket, and it's really on the back of that higher work scope. So we're seeing good material flow, which is driving those heavy shop visits. And it's not just the PW1100, though, that is the predominance of it. The V2500 shop visits remain right on track at the midpoint of the year to our full year induction expectations and the content there continues to be strong too.

So I think what's important here even as we see OE sales down a little bit is that it's really about the material allocation and we're taking up the profit for Pratt. So we still see the margin expansion, not just this year, but we expect that to continue in years thereafter as this aftermarket continues to gain further traction and the profitability continues to accrue to those contracts. So feeling good about where we are, and I think, just a few tweaks around the edges in terms of our allocation of material between the different channels.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Yeah, thanks. Good morning, guys.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Good morning. Good morning.

Gautam Khanna - *Cowen and Company LLC - Analyst*

I was wondering if you could talk a little bit about Raytheon defense's margin opportunity over several years. It's done very well in recent years in terms of rate of improvement. And in the past, you've commented on productivity, mix, mixed foreign versus domestic, mature programs versus newer programs. If you could just talk about the evolution there? And what do you see as the art of the possible over the next couple of years? Thanks.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, thanks, Gautam. I would say we're really pleased with the Raytheon performance this year. I mean, the 18% organic sales growth and the 12.6% margin. Again, we laid out a while ago where we thought the full potential of this business could be, and it is and continues to be really right on track. And that really comes down to the demand and the performance in the supply chain.

The demand obviously continues to be strong, $20 billion of awards in Q2 and an $86 billion backlog. And the mix of that demand continues to be pretty favorable. These are mature programs.

Those things that we've made historically, we know how to go drive productivity. And it's also been the performance of the supply chain on these mature programs, which has continued to be strong. We've seen at least over two years of quarterly material receipts going up. We've given very, very clear demand signals, very helpful in terms of what the government has done there as well. We've given very clear demand signals to our suppliers, and they continue to step up and deliver. So that helps drive this productivity.

The other piece of the mix, and you mentioned it, is the international component. Again, 48% of Raytheon's backlog is international right now on these mature programs. And that also helps drive a little bit better pricing and productivity. So all of those things go into what we consider to be Raytheon being on track to continuing to drive margin expansion in its business and getting to that, we'll call it, full-potential area that we talked about previously.

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

Gautam, the thing I would add, too, around productivity, I agree with everything that Chris said, is we saw about $20 million of favorability from productivity in the second quarter. So cumulatively, year to date, we're about [$40 million], which frankly isn't that significant, which tells me that we've got a good solid base margin in the business in the backlog. And that's what the Raytheon team has been focused on for the last couple of years as we've onboarded a lot of new work.

It will, of course, ebb and flow a little bit based on the mix of the timing of deliveries, but again, having achieved the 12% plus margin here and then as you look at the outlook for the rest of the year, seeing it's still in the mid-12% range, we feel really good about the trajectory that we're on. And all the while, we're able to make investments that we need to do to not just support the new capacity for additional current products, but to invest in new products as well. So feeling good where we are, still a lot more to do.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Maybe the last thing I would say on this one is, we've mentioned this before, the framework agreements that we've talked about, they're not even in this backlog today. To the extent that they get into the backlog and that we get the multi-year treatment, we really believe those are really, really good pieces of business. And so I'll just say we're not going to stop in terms of where we are from a margin perspective. We're still going to continue to push. We think those framework agreements could be a significant tailwind there.

Operator

Ron Epstein, Bank of America.

Ronald Epstein - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Can we talk a little bit about capital deployment? So in the quarter, you're divesting Blue Canyon. You're generating a mix of cash. There is a complicated narrative around share buybacks and dividends. So how are you thinking about deploying capital? And how are you looking at the portfolio and how should we just broadly think about it?

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, thanks, Ron. I think our priorities on the capital allocation front continue to be consistent, and that's investing in the business. You've heard us talk a lot today in our prepared remarks about the demand. And the demand -- we've talked a lot on the defense side, continues to be strong on both the commercial and defense sides of the house. So continuing to invest in the business to make sure that we've got the right capacity and a healthy supply chain will continue to be a priority.

A commitment to the dividend for sure, obviously, we've raised the dividend again here recently. And then continuing to reduce the debt to strengthen the balance sheet. On the M&A front, I wouldn't say that anything that's swirling around out there is going to change our thoughts on that. We've got a pretty robust set of criteria about things that we think fit in the portfolio, may not fit in the portfolio.

We're going to continue to be disciplined around those types of opportunities. And for us, when we kind of look at the portfolio, there's nothing that we think we really need. We think the portfolio is exceptionally strong. We've got a lot of conviction around the growth trajectory in the portfolio and the way things fit and how we can continue to leverage both scale in terms of supply chain and cost structure, but also technology.

So really no change in our mind about how we think about capital allocation. And so for us, it's just about driving execution, investing, and making sure that we're delivering for our customers, and the rest will take care of itself.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Hi, good morning. Neil or Chris, can you share your latest thoughts on the durability of the shop visit demand for PW4000 and V2500 over the next few years based on the utilization you're seeing on those engines today and the conversations you're having with customers? And then, Neil, if you could also share an update on GTF aftermarket margins, that would also be helpful. Thank you.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Sure. I'll start, and then Neil you can chime in. On the V2500, you heard Neil say a few minutes ago, Scott, that our shop visits are right in line where we thought they would be. Content continues to be strong, and we've seen pretty low retirement activity on that platform. So we think it's going to continue to be a very strong contributor to the overall Pratt aftermarket.

A reminder, that is still a relatively young fleet. A number have not had their first shop visit or their second shop visit at this point. So there's a lot of runway left on the V2500 fleet, and it has been integral to the fleet planning of its operators, given we're still working through the GTF situation. So feel really good about the future of the V2500.

On the PW4000, again, I would just say that this is exactly where we would expect it to be in its life cycle. And again, when you get to this particular piece of the life cycle, you start to see things go through a managed decline, and that's exactly what we're doing. There's still going to be some strong contributions from those platforms over the next several years, and we will ultimately manage that decline over a period of years. But nothing surprising there at this particular time. It's on plan and what we expected.

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

Thanks, Chris. And a couple more points there. I think, building on the content theme that we're seeing here in 2026, even as the V2500s in terms of number of shop visits tail off, the heavier shop visit scope will continue to build. And so we still see very steady and growing revenues in that portfolio through the end of this decade.

So I think big picture at Pratt, the size of the GTF fleet and the aftermarket that it is and will generate and continue to grow over the next 5, 10 years will offset any of the managed decline on the legacy fleets and then some -- in particular, with respect to the margins, we continue to have low-double digit margins in the GTF aftermarket. I think that there continues to be opportunity there that we've talked about.

These are long-term contracts, we remain prudent in the way we look at the booking rates on those and we're introducing a lot of new material and additional benefits to the GTF engine over the coming couple of years, we expect that to further benefit the GTF aftermarket margins as well. So it's on the right trajectory and no changes from what we've talked about in the past.

Operator

Miles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

Thanks so much. Good morning. First, a clarification. Are you planning to deliver more on-wing engines to Airbus this year than you were at the start of the year? And then on Collins. Can you comment on what your outlook is for the OE portion of the business? That seems like it's probably the biggest contributor to the raise there on the top line. And where are you seeing that relative to your production channels in terms of better performance? Thanks.

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

Yeah, thanks, Miles. I'll start here and Chris can pile on. As it relates to our plans with Airbus, no change to our installs in terms of the full year. We're really just swizzling some product between the spare engines and the aftermarket. That will grow in the second half, the installs, and Chris talked about just a few minutes ago that we'll deliver a record number of engines to Airbus this year and ahead of our market share.

On the Collins side, you're right. We're pleased by the rate increases that we're seeing on the OE side. I would put about $525 million at the midpoint of our increase at Collins to the commercial OE side, and it's really across both narrowbody and widebody. As you know we have some really heavy content on the widebody, doesn't come with profit, but nonetheless, building confidence in the supply chain performance there. And that's enabled us to take up the top line as it relates to those deliveries that we see coming in the second half.

Operator

John Godyn, Citi.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

Hey, guys, thanks for taking my question. I wanted to just spend a second on the international opportunity in defense. That's something that has been sprinkled throughout some of your answers to the questions, and I was hoping to just kind of put it in one place.

I thought I heard you guys say international bookings were up 2x, year over year. It seems like there's a huge opportunity out there internationally that may not be kind of fully appreciated. And even when these framework agreements come through, there might be international demand on top of that. Maybe you guys could just reflect on that and how the international opportunity is going to flow through the numbers over the next few years. Thanks.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah, thanks, John. And you're exactly right. As I said in the first answer upfront here, significant domestic demand. We'll see how the budget ultimately pieces together. But the international continues to grow as well. Obviously you know what's going on with our NATO allies driving their budgets to that 3.5%. We've seen some big European orders here in the quarter and in the first half. And overall, as I said upfront, 48% of our backlog is international.

Of course, there are opportunities in the Middle East as well with what's going on. We have a strong installed base both in the Middle East and in Europe. So these are the things we're going to continue to leverage as the demand grows. And again, I think the other piece here, and you're seeing some more support for it, are those co-production agreements in Europe and in other places.

We've announced some -- you heard about the one on AMRAAM in our prepared remarks, Stinger as well. We've got co-production agreements on Patriot. Across Europe, we've got strong partnerships with Kongsberg, NASAMS, with MBDA.

So we've got a suite of Polish suppliers, both on Patriot and on F135. So continuing to grow the industrial base there not only strengthens the relationships, but also continues to add very capable sources to our industrial base and adds capacity and allows us to ramp up to meet that stronger demand internationally. So ultimately, just continues to be a significant opportunity for us that we're leveraging.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Thanks very much, and good morning. I wanted to ask a little bit about Collins and expected profitability there. You raised sales and profit guidance. Looks like expected margin rate roughly similar despite the increase in OE sales.

There's still a significant margin opportunity at Collins. And maybe if you could talk a little bit about the pace of realizing that opportunity and what's in front of us? As we think about both the things that you guys can do from a self-help perspective, but then also maybe some of the headwinds that might emerge from a mixed perspective.

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

Yeah, thanks. Let me start, Seth, on that one. Let me start with this year. Again, you're right, we're seeing, call it, 17% return on sales and a significant increase despite some tariff headwind that we're still going to see this year at Collins. So really good performance. There's a big step up in the second half. And just to kind of help you with the drop through, just talked about the top line going up about $525 million. For higher OE sales, keep in mind the 787 is a piece of that and there's not a lot of profit contribution there, so -- hence the lower drop-through. But there's a huge step-up between the first half and the second half.

And when I think about that, about 60% of that step up is going to come from drop-through on the higher volume that we're going to see across all the channels at Collins in the second -- in the third -- fourth quarter rather. And the rest, 40% of that's going to come from cost-reduction actions.

Collins has taken on some really significant structural changes to their business. They've invested a bit in the first half of this year to begin the realization of those cost reductions, which we expect to start to play through in the second half and then continue out over the next several years. And so as we step further back and look at the margin opportunity at Collins, we've always talked about our ability to get back to, call it, 19%-, 20%-type margins.

And we see no reason why, when you think about the growth drivers of that business, more and more out of warranty flight hours, a larger installed base, continued ramp on the OE side, really significant and healthy Mission Systems defense business at Collins as well. All of those things we see growing over the next few years, and that additional volume is going to help with absorption, and you couple that with this cost reduction, what you called self-help. And we agree, all that puts us in a good position to continue to drive these margins higher over the next several years.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

So the one thing that I would just emphasize that Neil said is, yes, there are real structural tailwinds to this business based upon its portfolio composition and the content that it has. And that's going to be a significant part of this margin expansion.

But let me just pick up on the last piece, the self-help. The Collins team has really taken on, in an aggressive way, structural cost reduction actions to drive margin expansion and improve overall profitability and performance. We're talking about consolidating operations, increasing hours at best cost locations, attacking overhead layers. And again that this is a business that has been created with a number of large acquisitions, and this team still is driving a common operational approach to all of these businesses. Some of that integration that really hadn't been done yet. All of which we think are going to yield benefits over the next several years. Those are still in the early innings, we would say, but those are going to -- you're going to start to see those flow through next year and beyond.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Morning, Chris, Neil, and Nathan. Chris, a level question. At Farnborough, Airbus mentioned they see the launch of the next clean-sheet aircraft program as an opportunity to rebalance the business model of the industry. Just curious what your thoughts are on that. Are they looking to become a risk-sharing partner in future engine programs, or are they thinking about taking royalties on your aftermarket sales in exchange for maybe a higher ASP on the install engines? Just curious of your thoughts.

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

I would say the first thing, and I know coming out of these air shows. There's -- it's the right forum to be thinking about like what's next and maybe the shiny new toys that are out there. I will just tell you that our focus today is on execution. Obviously, driving additional deliveries to Airbus, supporting the GTF aftermarket, and then executing on those 8,000 engines that are still in backlog.

So we continue to believe that NGSA is going to continue to move to the right because the industry needs stability. Our customers want and need stability and supply-chain needs and wants stability. And so I think those things are the focus, and we agree with that.

But to your point, we've been, I think, pretty steadfast in our belief that the next generation single aisle, especially on the propulsion side, will need to have a different business model. I think the idea that we're going to invest all this money upfront and then, again, not have high margins on deliveries and then rely on anywhere from four to six shop visits over a 25-year period.

I don't think that that is the best model going forward. I think we need to smooth out some of those cash flows and some of that investment. And we're open to any number of ways to do that. And we've had some preliminary conversations around that. But I would just agree with the underlying premise that the business model is going to need to change in the future, and that's something we're going to continue to drive.

Operator

Douglas Harned, Bernstein.

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

Good morning. Thank you. Chris, when you were talking about the high demand for tactical missiles, interceptors. This has been a really strong position even a year ago. As you have huge export demand, you added on top of that Golden Dome. Now we have the war in Iran and more export orders. So when you look at the trajectory, and particularly with respect to the frameworks, you were already really pushing for higher production rates over the next three years or so before. How do you see this higher demand today in terms of what the shape of that trajectory can look like, given the efforts you would have to invest to bring the rate up?

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Well, you're right, Doug. I think all of this, whether it be executing on the backlog we've got today or any of the things that may come into our backlog from the framework agreement is going to be predicated on the supply chain. If you look at our year over year growth in output, which is really strong, again, a lot of that on the back of these being mature programs, but also the supply chain continuing to step up and deliver at rates.

As we look to the future, that's going to have to have another significant step up, which is, again, why we're out right now investing in supply-chain resiliency. We're investing in second and third sources in constrained areas. And why we're looking for potential suppliers that are outside the defense industrial base today who may have capability that can be brought to bear to help us get to higher rates. So all of those things are going to have to come home.

I think the biggest part of this is going to be the multi-year nature on some of these framework agreements. If you can go out and give a supplier or set of suppliers a seven-year firm order, they will lean forward, they will make the investment, they will bring in that tooling and test the equipment. They will hire people in advance to be able to get to those rates. But they've got to see that level of visibility and commitment. And I know the Department is committed to making that happen. We'll see how the budget ultimately shakes out. But that, to me, can be the single biggest game changer in getting this supply base up to the next level.

Operator

Thank you. This now concludes our Q&A session. I will now turn the call back to Nathan Ware.

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

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

Christopher Calio - *RTX Corp - Chairman of the Board, President, Chief Executive Officer*

Thanks, everybody.

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

Thank you.

Operator

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