LSEG STREETEVENTS

EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Kristine Liwag *Morgan Stanley - Analyst*

PRESENTATION

Kristine Liwag - *Morgan Stanley - Analyst*

Hi, good morning, everyone. I'm Kristine Liwag, Morgan Stanley's aerospace and defense analyst. So very excited to host our next panel. So we have from RTX, Chris Calio, who is Chairman, President and CEO. Welcome, Chris.

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

Good morning, Kristine. Great to be here.

QUESTIONS AND ANSWERS

Kristine Liwag - *Morgan Stanley - Analyst*

Great. So to get started, we'll start with some recent disclosures, and Chris will read some disclosures as well, and we'll dive right in. So for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representatives. So I know you've got disclosures too.

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

I'll keep it simple. I'll be making some forward-looking statements this morning. Of course, those come with certain risks and uncertainties, so please consult our SEC filings for those. And then, Kristine, maybe I'll just make some brief opening remarks, just sort of frame up what we're going to talk about today.

Kristine Liwag - *Morgan Stanley - Analyst*

Wonderful. Go ahead.

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

Great. Well, good morning, everybody. Here at RTX, we have very strong conviction that we're exceptionally well positioned in the aerospace and defense landscape with our three industry-leading businesses: Pratt & Whitney, Collins and Raytheon.

If you think about Pratt & Whitney, it's got the best small engine company in Pratt & Whitney Canada, over 70,000 engines in service, number one and number two in virtually all of its subsegments. Our military engine business is sole source on some of the highest priority platforms in defense today.

I think F-35, B-21 -- and of course, we've got the GTF, 8,000 engines in backlog and a long tail of deliveries ahead of us.

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At Collins, you've got a portfolio that is number one or number two in 70% of its product segments. It's got 2 times the content on new platforms than it did on legacy platforms. And it's got about $105 billion of out-of-warranty equipment flying around today. So if you think of Pratt and Collins, not only are they riding the wave of the OE and aircraft demand that's out there today, everything they're delivering is going to have a very long and lucrative aftermarket tail to it.

And then, of course, there's Raytheon, which has defense franchises across the company, which is critical to defending the US and our allies. You're reading about it every day, protecting people and critical infrastructure. It's got 35 systems in operation today in 50 countries and a significant backlog. I think if you look at the end of Q2, the 12-month rolling book-to-bill is 1.77.

So incredible demand for the product. And we've just recently signed up the UCA for Tomahawk. We'll be adding that to our backlog here in the third quarter. And so when you think about that product portfolio, it is just very, very well positioned to take advantage of the demand we're seeing in aerospace and defense. And that's evidenced by the $289 billion backlog that we've got across RTX. That's up 22% year-over-year. So just incredible demand. It is real and it is enduring.

I'll tell you, our focus, of course, is on executing on this backlog, and we're seeing real momentum in our execution and our operational focus. If you think through the first half of the year, 13% organic sales growth, 21% year-over-year adjusted EPS growth. And we generated about $4 billion in free cash flow. So really good operational progress here in the first half of the year.

And of course, we're in a long-cycle business. And so while execution day in, day out of that backlog is critical to our customers and to our results, we've got to continue to look over the horizon and make sure that we've got the right technologies to fill our pipeline as we move forward and that we're making sure that we're investing in the newest tools and systems to design and manufacture our products.

And so this year, we'll invest about $10.5 billion in company and customer-funded E&D and CapEx to make sure that we are staying very healthy in terms of the product pipeline, delivering on our backlog today and making sure that we stay competitive well into the future. Last thing I would just say, Kristine, is no change to our full year outlook.

We still remain on track. With that said, we're starting to see some IEEPA refunds start to flow through here in the third quarter and into the fourth quarter. And so we'll provide an update on that as we kind of move forward. So with that, I'll put it back in your capable hands.

Kristine Liwag - *Morgan Stanley - Analyst*

Chris, I mean, your opening statement just reminded us of the breadth of your portfolio. I mean, if you guys are shopping for a biz jet, the Gulfstream G600 is powered by Pratt & Whitney.

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

Yes, you're absolutely right.

Kristine Liwag - *Morgan Stanley - Analyst*

So with that, I mean, Chris, you've been CEO now for 2.5 years. When you think about your tenure in your role, what has been the most meaningful progress RTX has accomplished in this period? Where do you see the most opportunities ahead? And how does that shape where you're spending your time?

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

Yes. Thanks, Kristine. Again, I'll go back to the demand and to the backlog. The story from our customers, whether it be commercial or defense, is we need more and we need it faster. So it's the operational focus on executing on the backlog.

And again, we're seeing progress there. If you just look at some of our major programs and initiatives, you start to see that play through. First half of the year, GTF MRO up 30% year-over-year, a critical enabler to continuing to address the fleet issues on the GTF.

At Raytheon, our critical munitions have doubled in terms of their output in the first half of the year. Again, the US government needs more, they need it faster. Our allies need more and they need it faster, and we're continuing to deliver on that commitment.

And then if you look at Collins, 20% sales growth on OE in the first half of the year, again, keeping up with the ramp in front of us from the Boeings and the Airbuses. They all want to continue to take up rate and Collins is right there to continue to support them.

So again, first and foremost, it's about executing on that backlog. And then Kristine, as we sort of look ahead, it goes back to we're a long-cycle business, and we've got to make sure that we are continuing to look over the horizon.

Those are things like making sure we're executing on our technology road map, both defense and commercial to stay competitive. We have a very, very robust technology road map that we're executing each and every day, again, sharing technologies across the companies.

When I think about the progress we've made as a company in terms of the, I'll call it, the cost and supply chain synergies, those have been pretty significant. I think we've done a really good job of taking cost out and really understanding the synergies between the three businesses, things like our supply chain and our CORE operating system continuing to be deployed across our businesses, central services and bringing those costs down.

I will tell you the place where we're really starting to see momentum is the technology sharing and the possibilities across our three businesses. How do we make sure that the technologies that we are developing in one have applications across. We're seeing it in things like hybrid electric. We're seeing it in areas like high-temperature materials between Collins and Raytheon.

So again, continuing to identify and execute on those, what I would call technology synergies continues to be top of mind because we've got to stay competitive in this long-cycle business. And even if it's long cycle, things are moving very quickly, as you know, and we want to make sure we're right there.

Kristine Liwag - *Morgan Stanley - Analyst*

Chris, you highlighted the strength of the first half of the year. You also increased your guidance. How do we think about the balance of 2026? And how should we look into 2027 with this strong backlog? What are you watching for? And what's the trajectory like?

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

Yes. So when you think 2026, and we're sitting here, smack in the middle of September, I would just look at the strength in our three main channels, right, commercial aftermarket, commercial OE and defense. On the commercial aftermarket side, obviously, it's a pretty dynamic environment right now, but we continue to see strong orders.

Customer buying behavior hasn't changed significantly. And you're hearing some of the airlines talk about the continued strength they see in forward bookings. So commercial aftermarket continues to be pretty resilient.

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The consumer, obviously hanging in there. On commercial OE, well, as I said upfront, Boeing, Airbus, they want to continue to raise rates. They've got a 15,000 aircraft backlog today that they've got to execute. The demand is there for new, more fuel-efficient aircraft. And so for us, we're just, again, riding that wave of the higher OE and making sure that we can keep up with that demand.

And then on the defense side, again, I'll say it again, it's more and faster. Integrated air and missile defense, not only here in the US but internationally, is top of mind for every country around the world. And of course, we play a role in virtually every single layer of integrated air and missile defense. And so our backlog is strong there. We continue to bring in more orders internationally.

We've got our five framework agreements that I talked about with the US government. We've got one that's moved into UCA. We're now executing on that, Tomahawk, long-term contract. We're working through the others.

So again, it's the demand picture that I think really gives us the confidence here as we head into '26, or towards the end of '26. I won't get too into the details, Kristine, on '27, other than to say, I think the fundamentals that I've spent sort of first 10 minutes here talking about have us confident that we're going to continue to have organic sales growth, margin expansion and robust free cash flow generation.

Kristine Liwag - *Morgan Stanley - Analyst*

Wonderful. And Chris, you've definitely touched on demand. There's no demand problem for aerospace and defense. But converting that demand into revenue has been a pain point for the industry with constrained supply. What are you watching for to be able to convert some of that backlog sooner and then also taking a step back with the robust demand environment you painted, where do you think we are in the cycle?

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

Yes. Maybe I'll start with the cycle first, Kristine, because we are -- we RTX are at the forefront of what we believe are two really powerful macroeconomic forces. The first one is the continued need and desire for air travel. As I mentioned before, you've got 15,000 aircraft in backlog today with Boeing and Airbus.

There's a projection that you're going to need over 20,000 to 30,000 new aircraft over the next decade, decade and a half, which is more than the actual installed base today. So that demand for air travel for new and more fuel-efficient aircraft, that continues unabated.

The second piece, of course, would be the acknowledgment that I think everybody around the world has that the growing geopolitical threats are only strengthening and that every country needs to make sure that it has what it needs from a defense perspective and to increase defense spending to meet the threats that they're facing. I think that, again, the whole paradigm has sort of shifted in national and global defense.

I think there was a point in time where people were relying on others perhaps for their defense. And I think those days are now behind us. I think everybody realizes they need to continue to drive defense spending and make sure they have what they need to address the growing threats that are going on in the US today. So those two macroeconomic forces are not going to abate.

And again, as I said upfront, we've got a product portfolio that sits right in the middle of both of those, and we'll continue to take advantage of those. And so you're right, Kristine, that sort of portends like, okay, Chris, how are you guys going to go and execute on all of this?

And I will tell you, we've spent a significant amount of time investing in our shops, making sure that we not only have our CORE operating system deployed around the company, which is our version of sort of lean operation and problem solving. And if you go into any one of our shops today, you'll just -- you'll see the language, you'll see the metrics and you'll see the dedication to that kind of lean operation.

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As we said before, sometimes it's creativity over capital. Capital has a long lead time. And in many cases, we can go into our factories and lean them out and get more productivity out of what we have today as we're trying to add capacity. So very much about our CORE operating system and continuing to drive that. The second is continuing to invest in automation in our shops, making sure that we've got the best of Factory 4.0.

We have so many connected machines today. There's so much data coming off our machines. How do we make sure we get out ahead of issues we may have, see them well in advance? How do we get visibility into our supply chain, all of those elements in terms of automation in Factory 4.0.

I know, Kristine, you had the opportunity to go see what we're doing in our Singapore GTF MRO shop and all of the automation that we're bringing to bear there to take turn time out and to improve quality and yield. We're doing that across all of our operations. And of course, the last piece is just we've got to make sure the supply chain is there. The supply chain is healthy and that they are investing.

I think there's a period of time coming in and out of COVID where there were comments around is the industry giving the right demand signals? Are people really prepared for the increase in travel and demand. I will tell you, we are exceptionally clear with our supply chain about what is needed, about the demand ahead. The demand that I'm talking to you here about, they all know about. They have visibility into that as well.

And so we've got to make sure they're continuing to invest not only in capacity but in people and in all the other things we need to meet this demand. It truly is a 1% problem, but it's one that we are exceptionally focused on and we get the entire supply chain moving with us.

Kristine Liwag - *Morgan Stanley - Analyst*

I mean I think, Chris, the automation you guys put into Geared Turbofan MRO is underappreciated. I did get to name a robot so in Singapore. But I've never seen that level of automation in an MRO facility. So kudos to the investments you guys are making.

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

Yes. And by the way, when you think of our GTF MRO network, one of the benefits of it is we own some of the shops, some of the shops are third party, and we're all sharing best practices. I was at an MTU shop in MRO shop in Hannover two weeks ago, and they're taking the lessons learned from Singapore and bringing it to that shop.

And then vice versa, there are things that Hannover has developed that we're proliferating across other GTF shops in the network. So there's this constant learning, this constant investment because the GTF MRO demands in the aftermarket are going to continue to grow in importance.

Kristine Liwag - *Morgan Stanley - Analyst*

Great. And let's pivot to defense. You talked about Raytheon's role in the integrated missile defense system. The US government is prioritizing integrated air missile defense and also Golden Dome. Can you talk about where you live in the architecture? Because I think this is also an area where the market may underappreciate your exposure.

And sorry, I'll add a second question to that. Half your backlog is international versus US. How do you think the international market evolves as they want to in-source, localize, kind of support their national champions? Where do you fit in that ecosystem as well?

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

Yes. So we'll start with the first question on integrated air and missile defense. And in our view, we sit right at the heart of that. If you just think about Raytheon's sort of sales composition, 70% of it are sensors and effectors. So we talk a lot about the munitions and the munitions ramp and munitions demand that's out there and the replenishment opportunities, all of which are absolutely true.

I think what's a little bit underappreciated is the sensing and radar capability that we have, and that's going to continue to grow as well. So if you think of integrated air and missile defense at every single layer, we have a critical set of products and solutions at each one of those layers. You start sort of in the innermost layer. We've got our Coyote counter-UAS system, which has been incredibly effective in the field.

It's got over 600 defeats in theater, valued very heavily by the Army and the Navy in terms of addressing the growing UAS threat that's out there. We're in development on a non-kinetic version as well that can go out. It's got a high-powered microwave capability that can address drone swarms. It can come back, it can be repowered and redeployed. So again, innermost layer, a counter-UAS system that is critical to the Army and to the Navy.

At the more intermediate level, you've got our NASAM system, which we do in concert with Kongsberg, by the way, again, a strong European supplier, along with the AIM-9X and AMRAAM effectors. A little bit further out, you've got Patriot. Patriot's got 19 partner countries. It's got hundreds of batteries all over the world. It sits at the heart, frankly, of integrated air and missile defense around the world, along with our GEM-T effector, which we are ramping up as well.

Of course, we've got our LTAMDS radar right on the heels of Patriot, which is our new 360-degree radar that's also going to be in high demand. We move a little bit farther out, we've got things like our TPY-2, our SPY-6 naval radar and the Standard Missile family, again, that deals with that level in that domain. And then, of course, we're all hearing about how the space domain is growing in importance.

And I will tell you, a lot of what we do there is classified, but we've got very, very strong capabilities in things like mission control, sensing and effects that are going to continue to grow in importance. Again, we don't talk about it a lot because it's classified, but know that our core capabilities can also be deployed in that domain as well.

So again, high-level proven capabilities at each level of the integrated air and missile defense architecture. Maybe to your question now on global demand and some of the dynamics that are happening there. As you pointed out, about 48% of Raytheon's backlog is international.

That's up 4 points from just a year ago. And I know there's a narrative out there around international sovereignty and are folks going to continue to need US weapons and systems. And I think the answer is unequivocally yes. And for us, that starts with the very strong installed base that we have internationally today.

If you just think about Europe for a minute, we've got nine countries that have Patriot, seven that have NASAMS, 20 that use our effectors. So an exceptionally strong installed base there. Same in the MENA region. We've got about 50 Patriot batteries there, 25 NASAMS, a suite of effectors that are being used. And so again, it starts with those things are already in place.

They're already highly effective. They are protecting people and infrastructure every single day, and they are integrated. So again, a very strong installed base to work from. And then to your point, we've got very strong partnerships and a track record of co-production agreements throughout the world.

We just think, again, back to Europe for a minute. We've got our deal with Kongsberg on NASAMS, MBDA on GEM-T. We've got nine Polish suppliers on our Patriot program, continuing to find Polish suppliers in our business.

We just recently announced that we're out doing a study on additional suppliers in Europe for AMRAAM and for Stinger. And just RTX wide, we've got 20,000 employees in Europe. So again, we're making sure that we are strengthening our supply chain by moving internationally and strengthening the ties with our customers by making sure we have a presence in these in these areas.

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In MENA, I'll also note, Kristine, that we've got a recently announced co-production agreement on our Coyote counter-UAS system with the UAE. So again, it's making sure that we can continue to strengthen the supply base to feed both the domestic and international markets, but it's also about strengthening those relationships in country.

Kristine Liwag - *Morgan Stanley - Analyst*

Super helpful, Chris. And I think diving into the missile opportunity. Of the five framework agreements covering Tomahawk, AMRAAM and Standard Missile family, you said in the 2Q earnings call that this opportunity is not in backlog yet.

But at the same time, I think just a few weeks ago, August 17, the Department of War now awarded Raytheon a seven-year $23 billion contract that supports more than 1,000 Tomahawk missiles annually. I guess -- can we take a step back, how meaningful are these agreements?

Because we're seeing the demand signals and you're starting to see these materialize in contracts that are multiyear in nature. What do these kinds of agreements allow you to do regarding the ability to ramp up CapEx, how you do business differently, how you procure? And how could these agreements change how AMRAAM and Standard Missiles also get procured?

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

Yes. These are very meaningful, Kristine. They're very meaningful to us, and they're very meaningful to the Department of War. To your point, our $289 billion backlog that I cited a couple of times here this morning does not include the five framework agreements. It does not include the recently executed $23 billion UCA on Tomahawk.

So across these five critical munitions that we have under framework agreement, you're going to see the volumes rise anywhere from 2 times to 4 times. And we've been really proud to be a part of the transformation that the Department of War has been sort of infusing into the defense industrial base.

As many of you know, the history of defense procurement has been annual in nature. Every year, there's kind of a debate over the budget. There's not necessarily an opportunity to look sort of further out and plan further out.

And the department to its credit has said, we think that's led to some atrophy in the defense industrial base, and we need to take it up a notch and make sure that we've got the strongest defense industrial base in the world. In order to do that, we've got to give people long-term contracts so that they can invest.

Now from an RTX perspective, we clearly have the balance sheet to invest. And we've been doing that historically, whether it be upgrading what we do in Andover, Massachusetts for Patriot or for our other key effectors in Huntsville.

We're always continuing to invest and upgrade our facilities. But keep in mind that about half of our supply chain is a medium or small business. And so for them, investing and hiring and buying that capital on a long-term basis, sometimes can be very difficult if they don't have the orders in hand.

In many cases, they're just unwilling to be able to do that, and I certainly understand. And so with these seven-year or long-term agreements, you can go to your key suppliers. You can go to these small suppliers and say, okay, we've got now the visibility into guaranteed demand over the next seven years. So let's go move out on the plant, the property and the equipment and the labor that's going to be required to take these rates up to where we need to be.

And so it's -- I think the long-term nature of these framework agreements is incredibly important, not only in helping us drive productivity and cost reduction in our facilities, but again, to get those suppliers to be able to lean forward and do what we need to do in order so we can all get to the levels that we need to for the department.

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Kristine Liwag - *Morgan Stanley - Analyst*

Super helpful, Chris. And I think Raytheon's lead in terms of these high-performing capabilities are not in dispute. But some of the topics that the Department of War has been focused on are mass affordable weapon systems.

So first, how do you think about the evolution of the growth in these cheaper weapon systems that are provided by the newer defense entrants versus your traditional very high-end capability set? And then how do you think about potentially balancing investing and creating new solutions that are more affordable versus potentially partnering with these new entrants?

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

First and foremost, Kristine, I will tell you that our products are still going to be in very, very high demand. These are high-performance, battle-proven, successful systems that can sense, track and defeat ever-growing sophisticated threats from long distances within very short windows. Those types of threats are not abating at all, and you're going to continue to need the systems that we provide. And again, I'll just point to the framework agreements as evidence of that.

I'll point to the international demand for our integrated air and missile defense systems. I'll point to the potential of Golden Dome. These very highly capable, sophisticated systems are going to continue to be in use. By the way, I will remind you that these are not what you would call legacy systems. These are systems that may have been around at least by name for many years, but we continue to do technology refresh and updates.

We will learn from the threat landscape. We will learn from the services what the adversary is doing, and we will upgrade our product to meet those and in some cases, add additional capabilities and mission sets to those effectors. So those are going to continue to be in high demand well into the next decade, okay, when you think about all the long-term agreements we have and the backlog we've got to execute.

I will also say that there is going to be a growing need for some of the lower-cost systems. I think it's an and, not an or. And so we're doing a number of things to play in those areas. I've mentioned our Coyote counter-UAS system a few times today. That continues to be highly effective.

I would put that in the cost-effective effector category, highly capable. We've got directed energy solutions that we're also continuing to work on. We've got a composable weapons construct that we're working through with our Advanced Technology team within Raytheon, which is effectively looking at developing building blocks from our existing portfolio today.

So whether that be power systems, whether that be the actuator, whether that be the seeker and how do we go using model-based design, figure out a way to use those composable aspects that are designed, proven and in production today and sort of mix and match, if you will, to create at a very high rate, new weapons that can address evolving needs that the government may need.

So again, these aren't things that are going to be in a 10-year development cycle, quite the opposite, a much shorter design and development cycle and a fielding timeline that meets the threats that are out there today.

I'll also mention that we continue to invest through our RTX Ventures in I would say, emerging companies and emerging technologies. We've got about $250 million in investments across 30 companies. And these aren't necessarily just passive investments.

These are companies on the cutting edge that we are doing demonstrator programs with, trying to find ways to incorporate some of their technology into our existing products to enhance their capability and be able to serve new and additional missions.

I'll also mention that there's a growing need for CCAs. That recently just came out of the US Air Force Conference in the last sort of 24 hours. And we're a platform-agnostic supplier of a lot of key systems that are going to continue to go on those types of platforms, whether it be

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our mission systems from Collins, whether it be propulsion from Pratt & Whitney, whether there are some effectors that go with that from Raytheon, some other systems in terms of sensing capability. So again, I think we'll be able to be a platform-agnostic supplier as those continue to proliferate throughout the services.

So again, high end and highly capable demand is strong. That's going to continue for decades, and we're going to continue to find ways to play in some of the other sort of, I'll call them, lower end, more affordable areas.

Kristine Liwag - *Morgan Stanley - Analyst*

Thank you, Chris. And maybe shifting gears to commercial aerospace. The demand environment is strong, but the Middle East has been a little bit lumpier this year. Can you talk about what your expectations are for the aftermarket through 2027? And also, what are you hearing regarding production rates from Boeing and Airbus?

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

Yes. Maybe I'll start with the production rates first, which is both want to continue to grow. I mean they'll talk about their own sort of '27, and beyond aspirations. But suffice it to say, those rates are going to continue to increase. And again, this year, we'll deliver a record number of GTF.

And as I said before, we're keeping up with demand at Boeing on all the systems we have through Collins. And so we continue to make the investments in capacity Collins, for instance, has been delivering at higher rates than we're seeing today. So it's got the capacity to be able to do that.

So we want to stay lockstep with our airframe partners on making sure that they get what they need and clearly here towards the end of '26, '27, and beyond. And I guess on the aftermarket landscape, if you will, I mean you're right, Kristine, you're seeing some price volatility.

Everyone knows here where oil is and that Jet A has clearly been a bit of a cost headwind to the airlines. I think they've done a very good job being able to pass price along to the customer and the consumer has been -- continues to have been pretty resilient.

And so as I said before, I haven't seen any change in the buying behavior of the airlines at this point. And again, I'll just step back and say, we've got, again, very, very strong fundamentals in our commercial aftermarket channel as a whole. You heard me say before, the GTF is now larger than the V2500 in terms of size.

And so those shop visits are going to continue to grow. The V2500 also continues to be in very high demand, very low retirements. And it continues to be a relatively young fleet. 15% haven't had their first shop visit, 50% haven't had their second shop visit yet. And then at Pratt Canada, it's about 60% of its very, very large installed base that hasn't even had its first overhaul yet.

So again, very long-term fundamentals that will continue to drive strong aftermarket sales for us. And then at Collins, I talked about their content. I talked about the $105 billion of out-of-warranty equipment. That's going to continue to grow as the rate continues to go up with delivery of new aircraft. And so again, strong fundamentals in the aftermarket for the long term.

Kristine Liwag - *Morgan Stanley - Analyst*

So Chris, a good segue to GTF. You made progress with MRO output. The turnaround times are improving. AOGs are also improving. So how do you think about balancing providing the spares versus OE? Where do you allocate incremental engines? And then also with the GTFA, with Advantage, how do we think about long-term economics for Pratt?

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

Yes. We felt very strongly this year, Kristine, we needed to make sure that our MRO shops had the material and material flow they needed to continue to drive MRO output to support the fleet. And we've seen this Q2, again, our MRO output was up over 40% year-over-year.

And that's led to the continued progress we've made on the AOG situation, down 25% since the end of last year, and we anticipate that is going to continue on a downward trajectory here in the second half. And as I said, MRO output is the absolute critical enabler there.

And what we've also been really pleased with has been the performance in turnaround time, not only of the entire network, but of some of our newer shops that we've added to the network over the last three years. We've added seven new shops to our network over the last three years. And they've taken out -- closing in on around 20% of the turnaround time on heavy shop visits.

So again, that gives us continued confidence that as we move into '27, and beyond that this will be a very high-performing GTF MRO network. On the GTF Advantage, I'll just do something quickly there. As you know, that has been certified. It's going to have 2 times the time on wing of our base programs. It's going to have full life LLPs, a state-of-the-art hot section, more thrust.

It's going to be completely SAF compatible, and it's going to be interchangeable with non-GTFA engines. And then, of course, there's a derivative that comes out of the GTF Advantage, the HS+, which we're in the process of certifying -- we'll start to go into shop visits next year. So good progress on that front.

Kristine Liwag - *Morgan Stanley - Analyst*

So Chris, I'm going to have three rapid-fire questions in the interest of time. First one, Collins Aerospace margins, when do we get to 20%? What are the building blocks there?

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

We'll put the Collins 19% to 20% in the medium term, Kristine. I won't give you an exact but medium term. And the three building blocks there are strong commercial aftermarket. I hit that a few times today. That's 40% of Collins sales.

The second is the continued OE ramp, which is going to drive absorption and cost reduction in our facilities and productivity. And the third is the structural cost reduction initiatives that Collins has taken on. We've already started to see that sort of flow through, Kristine, in the first half of this year, 12% organic sales growth with a reduction in indirect headcount.

Kristine Liwag - *Morgan Stanley - Analyst*

Great. Now on free cash flow, the midpoint of your 2026 free cash flow outlook is $8.6 billion. But the pain from GTF powder metal issue goes away. Earnings continue to grow. You've talked about the robust visibility ahead. How do we think about free cash flow in 2027? And beyond?

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

Yes. No point estimate here, Kristine, but I'll just say, based on the fundamentals of this business that we sort of outlined throughout this last 30, 35 minutes, which is strong demand, well positioned, strong aftermarket. Again, the fundamentals would say this business should be at 90% to 100% of adjusted net income.

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Kristine Liwag - *Morgan Stanley - Analyst*

And last question, with that robust cash flow, you've got a very strong balance sheet as well. What are the key priorities for capital allocation?

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

Yes. Our capital allocation playbook is going to remain consistent here. Number one, invest in the business. You heard me talk a lot today about our backlog and the demand. We've got to make sure that we've got the capacity in place to be able to serve that and execute on that demand.

That's number one. Number two, continue to pay down the debt. We've made that commitment. By the end of this year, we should be at pre-ASR levels, so really good progress there. And then the third, we're going to continue to be committed to the dividend.

We've been paying that for decades and decades. We raised the dividend this year. That's going to be sacrosanct for us.

Kristine Liwag - *Morgan Stanley - Analyst*

By the way, Chris, that ASR was pretty looking back, pretty successful.

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

Very successful. Very, very successful. Some doubters at the time, but I think it's worked out really well.

Kristine Liwag - *Morgan Stanley - Analyst*

Well, wonderful. So this concludes our session with RTX. Thank you for joining us.

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

Thank you, Kristine.

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