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OVERVIEW:

Company Summary

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PRESENTATION

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

Good morning. I'm Doug Harned, Bernstein's Global Aerospace and Defense analyst.

I am thrilled to again have with us Chris Calio, Chairman and CEO of RTX. I think Chris has a few things I think -- it'd be great to hear a little bit about the company overall.

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

Yeah, great. Well, good morning, Doug. Morning, everybody. Great to be here. Thought I'd take just a minute or so here just to sort of frame out RTX for those of you who maybe don't follow us as closely.

For those of you who don't, RTX, a global aerospace and defense company, about $88 billion in sales last year, coming off a pretty strong first-quarter demand on both sides of the commercial and defense pieces of our business. And our guidance remains on track for the year, Doug, I want to get that out upfront. I think the big message around us is that we have strong conviction around the demand on both sides of our business, commercial and defense, and that we are exceptionally well positioned to take advantage of that demand.

If you think about RTX, we go to market through our three business units. You've got Pratt & Whitney, which makes commercial engines and military engines. You've got Collins Aerospace, which makes high-end aircraft systems, think avionics, mission systems, electric power, nacelle, wheel and brake and the like. And then you've got Raytheon, of course, that makes high-end defense system franchise programs across its portfolio, things like Patriot and so forth.

If you just look at our commercial business, I'll start there for a minute. Again, Collins, it is number one or number two on 70% of its product portfolio. It's got about $105 billion of out-of-warranty equipment flying around today, so just huge aftermarket tails. And it's got significant content on the fastest-growing platforms in commercial aerospace, think A320neo, 737 MAX, 787, A350, and the like.

And then at Pratt Whitney, just very, very well positioned in commercial aerospace. Of course, everyone knows about the Geared Turbofan engine, well positioned in the narrowbody segment, got about 8,000 engines in backlog today, north of 50 million hours on that platform. It's three times larger than we thought it was going to be when we launched it about a decade ago.

We've also got the V2500, which again is a critical platform for customers. Today, there's about 2,500 of those aircraft out in service today. It's a very young fleet. While it's obviously been around since the mid-'80s, today's fleet, which is about 2,500 aircraft, very young, about 15% haven't had a first shop visit. Those that have -- about 35% haven't had a second shop visit. So long run there as well from a commercial perspective.

And then on the defense side of our business, of course, it starts with Raytheon. I think the book-to-bill over the last rolling 12 months has been 1.5. The demand has been exceptional in its portfolio. Again, I mentioned things like Patriot, Tomahawk, Standard Missile, things that you hear about, you read about being critical in today's environment. And so the demand there has been exceptionally strong.

Of course, you've also got defense in both the Pratt and Collins portfolios. At Pratt & Whitney, you're on some of the highest-priority platforms within the Pentagon. Sole source on all fifth-generation fighters, you've got the F135, Tanker, B-21. And then Collins has about a third of its portfolio in defense, think about its mission systems business, provides communications and connected battle space on a number of critical platforms. So both on commercial and defense, exceptionally well positioned, Doug, as we kind of look forward over the next few years.

And our focus continues to be on execution. All of that portfolio that I just described culminates in a $271 billion backlog. Again, it goes to that narrative I just talked about in terms of the very, very strong demand. So our focus is on executing on that backlog. We're in a very long cycle business. We've got to continue to innovate for growth. And we've got to continue to leverage the breadth and scale of RTX across our defense and commercial portfolio. And we really do believe that we're going to continue to drive margin expansion and strong free cash flow both this year and into the future.

So with that, Doug, maybe turn it over to you and we can get into whatever topics you want to.

QUESTIONS AND ANSWERS

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

Great. If we think back to when you were here last year, a lot's changed. A lot's changed in literally the last few months. Can you talk about how you see the macro environment today and what that means for RTX?

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

I agree, Doug, that a lot's changed. What I will say is our priorities haven't.

Again, it starts with this idea of the $271 billion backlog that we have, and our customers on both sides want more product and they want it faster. You've spent the last three days talking to lots of folks in this industry, and I think the consistent message is demand is strong and we need more, whether that be engines for Airbus, Boeing -- whether it be aircraft systems, Airbus, Boeing, whether it be US government and our NATO allies needing more new munitions and equipment faster.

And so for us, it starts with execution. If you think about Raytheon, in the first quarter, we had output up 40% year over year on critical munitions. We continued to go execute our fleet management plan at Pratt Whitney, and we've continued to keep up with the rising rates with the airframers at Collins. So it just starts with us with execution.

And then, of course, as I said up front, this is a long cycle business. You can't take any plays off. You can't take any cycles off. So we're continuing to invest and innovate for future growth. We're going to do about $10 billion this year in E&D, company and customer-funded, in capex. Part of that is continuing to drive innovation in our product portfolio. I'm sure we'll talk a lot about that today.

But the other piece is making sure that we've got innovation in how we design our products, how we make our products. You continue to invest in not only having the capacity we need, but the automation and the data we need to meet the rates we're going to have to achieve on both the commercial and the defense side.

And as I said before, Doug, it really is about leveraging our breadth and scale. We're going to do over $90 billion in sales this year. Our companies continue to drive both cost synergies through our supply chain through the application of best practices in our CORE operating system, which is our lean operating system.

And then the continued development of technology synergies, as I'm sure you are aware, there continues to be a convergence between the commercial and the defense. The Pentagon is looking to continue to drive more commercial application into defense. And with half of our business being on the commercial side, there continues to be a lot of technology synergies we've got to continue to take advantage of.

But you're right, Doug, the macro, again, on both sides, both commercial and defense, continues to be really strong. Obviously, we've had Ukraine on the defense side, and you've got Operation Epic Fury. And so there's a lot of replenishment opportunities in defense.

We were really pleased to be part of the framework agreements that the Pentagon was pushing for on critical munitions. It just shows how strong the demand is for our products both today and in the future. And so again, that's why the focus continues to be on execution.

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

Well, let's get into defense. So right now, we've got a proposed budget from the President of $1.5 trillion. Now, we'll see how that all goes. Obviously, there's a lot in there for you guys. But when you look at the process right now, this has got to make its way through Congress. It's complicated. How are you seeing that budget process unfold and how do you manage given the uncertainty in where things may ultimately come out?

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

Well, a couple of things, Doug. And you mentioned it, the base budget, the $1.15 trillion, again, even that crossing the $1 trillion mark is significant. I think, portends for continued demand in defense both this year and in future years, I don't think, that's not going to retract. I think that's only going to go forward.

And whether or not you get the $350 billion in reconciliation or not, I think when you talk to members of the House Armed Services Committee, you talk to folks in Congress, there is general bipartisan support for the need for larger munitions, ramp up the things that are within the core capabilities of Raytheon in particular. Again, if you just look at the five framework agreements that we've signed with the Pentagon -- Tomahawk, AMRAAM, the Standard Missile family -- I mean, these are things that are universally acknowledged as being needed both here in the US.

And keep in mind, no matter where the budget shakes out, Doug, 30% of Raytheon's sales are international. If you just look at Raytheon's backlog today, about 48% of that backlog is international today. So again, you're going to continue to have strong demand here in the US, whether that's the $1.15 trillion or the $1.5 trillion, but you're also going to continue to have strong demand internationally.

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

Well, on those framework agreements, because I think this was a really important thing, we talked about it with Jim Taiclet yesterday, for example. And so you each have these framework agreements on specific programs, Tomahawk, SM-3, AMRAAM, I think. So those framework agreements were put together prior to the war in Iran. And since then, we've seen a lot of usage of these products, so demand is even higher.

So where do you stand in terms of being able to take production up? If there's even more money in the budget, does that turn into just an extension of backlog? Or can you actually, say in the next three years, increase volumes further?

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

Well, the first thing I'll say, Doug, is the framework agreements that we've signed, those aren't even in the $271 billion backlog that I've quoted a couple times here this morning.

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

Those aren't under contract, yeah.

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

Correct. And we've been, irrespective of those framework agreements, Doug, been ramping significantly because of the demand in our business. And so the framework agreements, again, will be on top of that. But for us, yes, there's significant demand that comes with those, but the mindset remains the same.

We've been ramping anyway. We've got 12 consecutive quarters of material growth. We've continued to drive additional second sources into our supply chain. Just in 2025 alone, Raytheon qualified 150 new suppliers. So we've been in this ramp-up mindset and mode for a while now anyway.

And we think of the framework agreements -- again, I think there are a couple of underlying sort of principles that we have to sort of make clear. Well, number one, obviously very pleased to be a partner with the Department of War on their transformation efforts. I think some of these efforts have been long overdue in bringing commercial practices into DOW procurement, I think, is something that is good for the defense industrial base and good for the country, but frankly, an area given how large our commercial business is, we feel really well positioned to take advantage of.

I would say the second thing is that these framework agreements are based on long-term demand; in our case, seven-year firm demand. And the department understands that that's critical not only for the defense primes, but more importantly for the defense industrial base and our supply chain. A good half of our supply base are medium and small businesses, and they need to see that long-term demand signal in order to make the kinds of investments in people and plants and equipment and to hire labor and so forth. So that's the critical piece of this, so it's the firm long-term demand.

Second piece is the Department wants us to continue to invest in capacity. And they're going to work with us on a collaborative funding approach so that they help provide us funding sort of upfront to allow us to build the capacity and achieve the returns that we need.

And then the third thing I would say is they've been a partner with us on trying to drive additional folks into the supply base. They understand, as I said before, how important that's going to be. That's going to be the linchpin of all of this. Do we have a healthy enough supply base? Do we have folks that come into the supply base that have historically not been in defense to come in to help us reach these levels? Again, I think the seven-year demand that the Department has put out there, I think, helps drive the types of incentives we would need in order to be able to do that.

And so as I said before, Doug, we've been ramping. We've been investing in places like Huntsville, like McKinney, like Andover, because of this ramp that we've already been in. So for us, it's just continuing that pace and making sure the supply chain can keep up with us.

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

Now, this topic, as you I think may have seen, is we've been talking a lot about this over the last couple days, both from you and the missile suppliers as well as the solid rocket motor companies and others.

When you look at this framework, we're looking at growth planned out five, seven years in advance. Yet -- and I think there's no question that the demand is huge, there's bipartisan support for these initiatives. However, if you were to roll forward, say four years, I mean appropriations are done annually. How do you get comfortable that, different administration, different geopolitical situation potentially, these investments are all going to be tied to this growth?

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

It's been an integral part of the discussions we've had with the Department, Doug. We've said if there's a change in posture at some point, then there needs to be a very strong recovery method in a protective set of terms and conditions in our definitive agreements to make sure that when we make these kinds of investments and when our supply chain makes these kinds of investments, that they're protected, if you will, from any type of portability and administration or posture. Again, that's another big part of this.

I think the one thing that the Department understands is that you can't have these episodic ordering patterns. There's a lot of reasons why people believe that the defense industrial base has been unable to meet the demands of the Department and others. But a big part of that has just been some of the procurement patterns that have happened that allows lines to run dry, suppliers go into other more predictable industries. That's a big part of it.

And I think the department has been really, really clear we need to set these long-term, firm demand signals in order to get off of that cycle of up and down ordering because all that does is drive inconsistency in our ability to execute. And I think that has been their message from day one when they've walked in, and I commend them for it.

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

Now, one of the things, over the years, in your ramps that has been a challenge has been motors, rocket motors. How do you see that right now? I know Raytheon itself is now doing work in this area. So how do you look at that part of your supplier base and how it's responding to enable you to move on these ramps?

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

I think as a general matter, rocket motors have been a constrained value stream, Doug. You know that. And so while we've seen some improved performance with our current suppliers, I think that is a value stream that is in need of additional investment and additional capable parties to be able to really meet the needs of the entire industry.

And now, we're working with a number of folks, Avio, Nammo, investments to have them continue to ramp up their capabilities here in the US. Because again, I think there's a generational demand shift that's happening here, and we can't get caught short by a few constrained value streams. It just won't work, so you're going to need more players in that particular space.

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

So your view is and Lockheed talked about this yesterday that it's good to have sort of multiple suppliers on programs in general?

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

Across the board, Doug, I mean, we'll talk rocket motors because that's been kind of the headline constraint for many years. But if you just go through the entire supply base, we've got to continue to get additional sources into some of these key programs.

There are places where we found supply chain vulnerabilities where we've got sole source or people that are too small to fail. And I think if you're going to try to get to these ramp rates, keep in mind for our framework agreements, it's anywhere from 2 to 4x the rates that we're at today. So in order to get to those rates, you're just going to need additional folks to be able to make some of those parts, rocket motors, surely for one, but there are others too that we've got to continue to keep a close watch on. Castings, for instance, is one. Microelectronics is another. There's significant microelectronic demand in things outside of defense. We've got to make sure that we've got the capacity to serve the defense industrial base as well.

So we're working with the Department going through each of these constrained value streams. Where do we need to bring in additional suppliers? Who needs funding? They've obviously launched this Office of Strategic Capital, so we've introduced suppliers to that funding source. Because again, we've got to get everybody synchronized at the pace that we need.

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

Now, the wars in Iran and Ukraine have sort of brought forward the need for missile defense of all types, everywhere from low-end counter-UAS things to going all the way up to what you do with SM-3 and higher end. Can you talk about how what's happened in those conflicts has shaped the way you're thinking about your portfolio in terms of missile defense?

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

Yeah. I think when you start with Ukraine, you moved to, Operation Epic Fury, the need for integrated air and missile defense has never been more important. And when you look at the core of what Raytheon does, it's radars and effectors. So if you think about Patriot, NASAMS, we've got our LTAMDS that's now in production, Doug, which is sort of that next generation of radar, 360-degree view.

So A, you need the sensing capability, which we have. And then of course, you need the effectors, as well to go along with that. And so think about GEM-T, AMRAAM, and I mentioned some of the others that are part of the framework agreements, all a part of high-end integrated air and missile defense that both the US and our allies have just generational demand for right now.

But the other piece of this, and you kind of referenced it, is the proliferation of UAS, drone, and whatnot. And so we continue to develop solutions for that piece of the layered defense as well. We've got our Coyote system, which has been exceptionally well performing in the field, both Red Sea and here in Operation Epic Fury. We continue to develop a non-kinetic version of the Coyote, Doug, that can go out on a mission, use high-power microwave to address a swarm, come back, be recharged, be able to go out and do another mission. So at each layer of that integrated air and missile defense, we've got proven capabilities in production capabilities that are ramping.

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

And when you go to that sort of lower-tier counter-UAS portion, you have Coyote, you have LIDS, I mean, this is an area a lot of people at this conference are talking a lot about it. It's so much in the headlines. How large can that business be for you? And then second, there are tons of new entrants trying to work into this space. What advantages you relative to some of these new players?

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

Well, the first thing I'll say, Doug, is the I'll call them the higher-end systems, the things that are part of our framework agreement. I think it's generally well acknowledged that they've been exceptionally effective both in this conflict, and they're going to continue to be necessary for the high-end conflict in the future.

And I think the framework agreements bear that out. You're going to need those long-range precision strikes that just have exceptionally high success rates. And so I think that's something that's just going to continue to persist.

On the sort of lower end, the UAS, and drone and counter drone, you're right, there are a lot of folks that are in this space. We're not chasing the commoditized sort of low end. Again, what our Coyote system is able to do in a more cost-effective manner is take out a number of those platforms that our adversaries have developed, and it's been doing it exceptionally well.

If you ask what separates us from others, we've got a long history of making systems that have very, very high success rates. It's one thing to have a lower-cost platform, but if your success rate is in the 30% or 40%, I'm not sure that that's going to do us much good. You're going to need to have the level of success and precision across each layer. And that's something that we've got a strong track record of being able to do.

I'd also say, Doug, there's other pieces of our business as people are developing unmanned platforms that we can potentially be taking advantage of. A lot of those platforms are going to need engines, they're going to need mission systems, they're going to need avionics, they're going to have potentially effectors hanging off of them.

So there are other parts of our business that will actually be able to be a platform-agnostic supplier to many of those platforms. But the Raytheon piece, again, is focused on our LIDS and our Coyote system and some other things that we're doing in classified environments like directed energy applications.

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

Switching gears a little bit within Raytheon, over the last few years, you've had to rework your space strategy. Where does that stand now? How are you looking at that part of your business?

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

Well, if you think of Raytheon's historical space businesses, you've had, Doug, the mission control, you've had the sensing and the payloads that we make for sensing. Those continue to be very solid businesses.

But as you're starting to see this trend of conflict, moving to space, and you hear about this as part of Golden Dome as well, I would just say our space effects portfolio will continue to be a very fast growing piece of the portfolio. It's classified nature, there's not too much that we can get into here, but we consider it to be a core capability and have substantial capabilities in that area.

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

But this is different than it was a few years ago when you were trying -- at one point, when you're trying to do integrated satellites. It's more of a focus I'm assuming.

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

Yeah. Our strategy on that had shifted a little bit to say, again, we're going to be a Tier 1 supplier to folks that are going to be like an all-up integrator. That's not necessarily our core capability and it was just a pivot sort of away from that. And so the business is stabilized as a result. But there's this other piece of our space strategy, which is the space effects and defense that I think is going to be, again, a very fast-growing segment.

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

Now, within Raytheon, if we go back a few years, you've had challenges reaching your margin targets there. And I know there were fixed price development programs that were an issue. But here we are, you got, last quarter, 12% margins. I mean, are you at the turning point here where you can move those margins up to sort of this 12%, 13% level? I mean, given you've got a lot of mature production ahead of you, you've got export sales, are we going to see that upshift soon?

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

Well, we're really pleased with the margin trajectory we've seen over the last couple of years with Raytheon. Again, it has started with being able to meet our milestones and deliver the product. And that goes back to the continued focus on our supply chain. I mentioned the 12 quarters in a row of material growth. We've forward deployed hundreds of people into our supply chain to enable that kind of growth. So that gave us absolutely the stability that we needed to continue to deliver.

We also worked through some development programs, red programs got on the other side of those, Doug, as well. And those are largely now sort of sold off and through the development cycle. And then you mentioned it, much of what's gone into our backlog over the last couple of years would be core products, those radars and effectors, part of that integrated air and missile defense core capability that makes Raytheon who it is. And so yes, those are ripe for continued increases in productivity.

I also mentioned that 48% of our backlog is international which, generally speaking, tend to have higher margins. And so again, really pleased with the margin trajectory. We're of course not capping this business at 12%. I think as you think about the framework agreements and some of the efficiencies that can be brought to bear there, we think those are really, really good potential business as well. So again, pleased where the margins are and we're not stopping there.

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

Okay, great. Let's go over to Pratt. Now, another topic that's been right at the front over the last couple days here has been on the aftermarket. So let's take the V2500, which is very attractive, high-margin program for you guys. With the high fuel prices out there today, there are a lot of airlines, I will say, developing market LCCs, that are having real challenges from a cash standpoint. So far, have you seen any impact on your aftermarket demand given some of those pressures that you're seeing?

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

We had a strong Q1 in Pratt's aftermarket, Doug, up 19%. When you start to sort of dig into that, again, continued strength in the V2500 and then the GTF as well. As you know, we're working through the fleet management plan, so that MRO is going to continue to grow throughout the year.

And as we've entered here into Q2, and we are looking at this, as you might imagine, by geography, by customer, by program, the demand has continued to be good. We have not seen any change in buying patterns. We've not seen any change in airline behavior. And so again, for us, it's really just about making sure that we've got the supply chain necessary to continue to meet this demand.

The GTF, as I said before, is going to continue to grow just because we're continuing to work through that fleet management plan and we're making some very good progress there. And because of the GTF plan that we're working through, the V2500 becomes an even more important part of the airline's fleet operating plans. And so that demand has continued to be strong as well.

And then when you get into some of our more legacy products, think PW2000, PW4000, things like that, they've also continued -- the demand has continued to be very good. And so we just haven't seen any back off at this point.

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

Now, do you worry at all if this extends, how do you deal with an airline that comes to you and says, we flat out have no cash. You were going to induct our V. We can't do it. We have no money. What's the process to deal with those kinds of situations? Should we start to see any of that?

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

Well, first of all, we've got a really rigorous process, Doug, around evaluating all of our customers and any risk that's there. But generally speaking, we've got a long history of working with our customers on ensuring that we can continue our long-term partnership. And so again, those go in ebbs and flows, but we've got a track record to be able to work with our customers.

In certain cases, you can restructure a deal, you can defer certain things. There are ways that we can make it sort of a win-win situation. And then in the unlikely event or the unfortunate event that something happens with one of our airlines, I mean, generally speaking, the assets can be redeployed in other places. The demand is pretty strong. We've never been in a situation where we haven't been able to redeploy assets.

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

Now, on the GTF, so the PW1100, there still are a lot of AOGs. Now, some of those are inflated because you have Spirit -- there's some airline-specific issues. But can you take us through how you're progressing on bringing down those AOGs and kind of what that path is now?

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

Yeah. So as many of you know, we continue to execute on the fleet management plan that we've announced a couple of years ago on the 1100 and the 1500. The financial and technical outlook remains intact with what we've said. And again, a big piece of that was the fallout rate from our inspections. That's been exactly if not better than we thought it was going to be, Doug, so really pleased about that.

The AOG situation continues to improve. Again, we were down 15% in the first quarter since the end of 2025, and we continue to see that downward trajectory here continue in the second quarter. Now, a lot of that is on the back of our continued growth in MRO output. It was up 23% year over year in the first quarter, on the back of 26% growth in 2025. So really, really good output in our 21 GTF MRO shops that we've got out there.

And a big part of that has been the reductions in turnaround time. Turnaround time is down 20% in the first quarter, and that was on much heavier workscopes, 9 points heavier in fact. So continuing to see good material flow into our MRO shops, castings were up 10% year over year, forgings were up 18% year over year. So as long as that material flow continues, as we've seen, and our shops continue to come down the learning curve and turnaround time continues to come down, we expect to see the AOG situation continue to improve markedly.

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

So I'm assuming that -- and we've talked about this before, but I'm assuming that -- so you're still on that path in terms of sort of the $3 billion to $3.5 billion, which is the provision you took back in 2023, you're still on that trajectory to be there?

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

We are. And again, our focus is on making sure that we get the assets back in the hands of our customers, which is why we've been so focused on the MRO output, Doug. And again, it's been bearing fruit and you're seeing that show up in the fleet health.

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

Well, you're also -- I mean, you're delivering also a pretty high number of spare engines, too, to bring these off the ground. Certainly, like Airbus has commented, I know there's been back and forth on deliveries for on-wing aircraft versus in the aftermarket. Can you talk a little bit about that, how you think about that balance?

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

Yeah. The focus in '26, to be very clear, is on MRO output. We have a significant step-up in MRO output. That is going to be the key linchpin to the continued fleet health.

We've been in a situation over the last couple years where we've had to be thoughtful about how we balance material that goes to our OE side of the business and to the aftermarket. As I said upfront, we've got a commitment to our customers to get them back their assets. Since we've got to be, again, every day, every week thoughtful about whether material goes to our shops for a shop visit or towards the OE.

On the OE front, we're going to be up this year. We're going to deliver more engines to Airbus this year than we did in the last year. And as we continue to see the AOG situation improve, I expect that we'll continue to get aligned with Airbus on the volumes that they're going to need going forward.

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

Yeah, okay. So when you look at this rising demand on GTF, rising demand for aftermarket, for OE, and you look in your supply chain, you don't always see these two things grow at the same time. When you do, are there areas in that supply chain that you're particularly worried about that need to ensure they can deliver on both parts of this demand?

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

It's a really good point, Doug, because we are ramping deliveries. You're seeing it both at Airbus, and of course, on the Collins side, you're seeing it at Boeing as well. But meanwhile, the demand for aftermarket continues to be very strong. So to your point, you've got both of these things growing at the same time, and you're ramping at both of the airframers. And so much like on the defense side of our business, the supply chain is critical to enabling all of that ramp.

I mentioned up front castings. Castings, both at Pratt and Collins, continues to be a watch area. And we saw castings, structural castings at Pratt up 10% year over year in the first quarter. But you're always seeing things arise here and there that interrupt your flow. And so we've got to continue to maintain that maniacal focus on the supply chain.

And sometimes, that does require us to make some trades depending on is there an airline that's in a particular situation and they need a spare engine to come out of the shop, is that where the material should go. Our program teams are making those trades each and every day. But I think as we continue to mature, as we continue to see the supply chain continue to grow, those trades will happen less and less, and we'll be able to meet the needs of both.

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

Now, you have a relatively new facility in Asheville you're building out, which is doing sort of coatings, castings. I mean, what are your objectives with that effort? How does that fit into your whole supply chain view?

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

Yeah. We opened Asheville a few years ago as our turbine airfoil center of excellence. It's a key part of both the GTF and the F135 turbine airfoils. It's in a critical part of the engine, high-margin part, high-performance part. We've also launched an ability to do some of those castings ourselves. So that's something that we had a historical capability of doing and have since outsourced to others.

That's been a constrained value stream, and we want to be able to sort of re-energize our efforts around being able to do some of that. It won't replace and fulfill all of our needs, but again, given the demand both on OE and aftermarket, we felt it was a strategic decision we needed to make to be able to provide some additional capacity for the needs on both the defense and the commercial side of our business.

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

Because that's not an easy part of the supply chain, is this something that you look at as an ability to kind of flex if you have issues that you can bring some of that online?

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

You're right, Doug. It's a reason why it's been a constrained value stream. There are only a few players that'll do it. It is a very difficult process, but it's something that we've had historical experience doing. And we've been working through that over the last couple of years, making sure that, before we go live, we get the yields where we need them to be so it's economical and it makes sense.

And yes, it's just an area where we've seen long-term constraints and we need additional supply. And we just, again, made the strategic decision to bring that in and try to vertically integrate a little bit to give us more options.

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

Now, you mentioned the F135. So we're looking at flat production going forward, 156 a year. However, there's a lot of sustainment need out there. And how are you looking at the sustainment portion on that engine, as well as any impact you're seeing from the high op tempo based on current conflict?

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

I want to start off any discussion on the F135 with just how incredibly capable a piece of machinery it has been. If you ask any of the operators, they would tell you it's just a phenomenal engine.

And I think the one thing that gets a little bit underreported is that our mean time between overhaul, meaning like how long you can run it before you have to take it off for maintenance, is 2x the spec. And that's while we are 2x above the spec on power and thermal management because of other parts of the platform that are drawing power off the engine. So it's really just been a phenomenal, both from a performance perspective but also from a durability perspective.

And you're right, Doug, it'll be relatively flat from an OE standpoint this year, but sustainment was already going to be on a very significant track. We're going to start getting into the more scheduled visits. And I think the op tempo is going to continue to put demand into what was already sort of a high-demand program.

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

Yeah. Well, if we look farther forward and you're looking at a next narrowbody, how are you thinking about the engine you would like to provide for something -- a next narrowbody?

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

Whenever we talk about the next generation of engine, again, I feel compelled to talk about that you need to take care of your customers today in order to enable tomorrow. And so number one, our focus is on the fleet management plan and making sure that we get the GTF assets back into our customers' hands. And then two, we've still got 8,000 GTF engines in backlog today.

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

Well, and also the GTFA.

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

And of course, we've just now certified the GTF Advantage, which will provide additional fuel burn benefits, some additional thrust, but really will extend the time on wing by 2x, the original GTF engine. So that's where our focus is today. And there's a lot of runway just on today's program. I mean, if you just think about it, Airbus is sold out into the next decade. So that's sort of priority one.

But when you think about what it may look like towards the back end of next decade on a next-generation platform, in our view, it'll be a ducted architecture with a gear. And a gear is something that we've had over on the PW1100 50 million hours worth of experience with the gear, more than 10 years into production.

And we consider our GTF Advantage to be the perfect architecture for the next-generation single-aisle where we'll continue to provide additional technology upgrades to that architecture, whether that be a next-generation fan drive gear system, whether that be an upgraded combustor, whether we use advanced materials in the core that can withstand greater heat to be able to extend the life and the time on wing. Those are all things that we are investing in today.

One thing I will also mention when we think about a next-generation engine application is we've got to be thoughtful about the time on wing and the durability. We're going to continue to push to get fuel efficiency, but you've got to balance that with how long the engines are able to stay on wing and the durability. If you talk to any of our airlines today, they will tell you they don't want one or the other, they want both.

And so as we think about when the technology will be mature and ready, I want to make sure we're ready both from a fuel burn perspective, but also from a time on wing perspective. And again, so the technology has to be ready, time on wing has to be ready when it comes out of the box.

And then last, but not least, again, the manufacturing readiness. When we launched the GTF, we not only launched a new centerline design, but we took the ramp in terms of deliveries up right from the get go. And again, the next time we do this, I want to make sure that our manufacturing readiness levels match the technology readiness level so we can meet the ramp while also meeting the performance requirements.

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

Yeah. And I'd argue when you talk about those two things, everyone I talk to, durability is the first one across the board.

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

I think you're right. I think we're going to need to continue to drive efficiency in the engines, especially given what's happening in the world today. I think that's something that Boeing or Airbus or whomever when they launch is going to want to see a sort of a step change in fuel efficiency. But it's got to come with the time on wing, Doug. I couldn't agree with you more, which is why, again, I think this is a multi-year process to be able to prepare to be able to do that.

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

So if we jump over to Collins, this has had steady revenue and earnings growth over the last few years. But again, I'm going to go back to the current environment out there, the macro environment. I remember this, the Collins, what was Rockwell Collins, back during the global financial crisis, you saw the aftermarket get pressured a lot in some areas that are more discretionary, things like avionics upgrades, interiors. When you look at Collins today, which obviously broader than just what Rockwell Collins was, how do you see risks there given the environment?

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

Well, I think you've got to go back to what I said earlier. When you look at the Collins out-of-warranty installed base, it's $105 billion, and those out-of-warranty flight hours are continuing to grow as things come off warranty. So you've got just an incredible installed base there, Doug, that's going to continue to drive long aftermarket tails for years and years to come.

If you're thinking about sort of the current situation, then you got to step back and break down the sort of the Collins aftermarket into some of its pieces. Two-thirds of the Collins aftermarket would be in parts and repair, so that's sort of like break-fix things that you're going to have to do. And the remainder is made-up of provisioning and mods and upgrades. Generally speaking, provisioning follows OE deliveries, and OE deliveries are continuing to ramp. The good news this week on Boeing being able to go to rate 47 and then wanting to move to rate 52. And so provisioning, generally speaking, follows that trajectory.

Then, you get to the mods and upgrades. And to your point, Doug, you see some upgrades in avionics, maybe in some of our interiors business and whatnot. And so that's something we're looking at really carefully that if this were to extend and if there were to be more strain on operators, could that be a place where you might start to see some deferral and pushing things out.

But again, I think the one thing that the airlines learned coming out of COVID is they don't want to underestimate the recovery and they don't want to be out of step when it happens. So that's why deferring a shop visit on the engine side can be a very dangerous proposition because you don't know when you're going to get back in the line. Same with deferring a mod and upgrade.

And if you think about seating in particular, many of the airlines are now getting pricing because of the differentiation they're driving in the passenger experience and the cabin experience. And seating is a very big part of that. So again, I think the airlines today are looking at this like, hey, long term, RPKs are still going to be strong, and we've got to be in position to take advantage of that when it does.

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

Now, some good news on the OE side here is now we, as you said, finally have that 737 rate going up. That's great certainly for the integrated flight deck. We've got 787 going up. You provide the vast majority of the systems on that. However, that's in total, this OE demand is a little bit dilutive to margins.

So how should we think about margin trajectory given that this is now -- this portion should grow more? That's good for operating leverage with that OE work, but at the same time, it could be dilutive overall. What does this mean for the margin outlook?

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

Well, when you think about Collins margins, I kind of talk about it in three areas. One, again, I'll go back to the installed base in the out-of-warranty equipment. And that's going to continue to grow. And as you know, the aftermarket at Collins, very high margin.

Second piece, and you just referenced it, Doug, as these OE rates are going up, there's going to be some operating leverage there. We have been building at much higher rates in the past. We have the capacity. There's going to be that absorption benefit that comes from higher rates. So while the margins in OE are a little bit less, of course, than the aftermarket, again, there's going to be an absorption benefit that comes with these higher rates because we've been capacitized for them for some time now.

And then again, the third bucket is the continued drive to take out structural cost within Collins. You start to see some of that play through in the first quarter. I think they're taking some really smart actions on how to consolidate certain operations, how to attack spans and layers and drive costs out of the business and to just be more efficient.

Maybe just step back for a minute, RTX-wide, we had about what, 10%, 11% organic sales growth and pretty much flat headcount. And so that's something that each one of our businesses is driving towards. You just got to be more efficient, more productive. And I think Collins is leading the pack there.

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

So a while back, your goal was to have 19% margins at Collins. Where are you now on that path? Should we still be looking forward to that kind of a margin level?

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

Yeah. I think across each one of our businesses, there's margin runway, Doug. And I think with Collins as well, I think we've continued to grow margins even in the face of tariff headwind last year. We're going to continue to grow margins this year.

And again, we're on that trajectory. That goes for each one of our businesses. You talked about Raytheon early on in that -- still in that 11%, 11.5% range. There's room to grow there.

Clearly, at Pratt, as the GTF aftermarket continues to grow and become more profitable, that'll be a big driver. And we didn't even really talk about Pratt Canada today, which is the best small engine business in the world with 70,000 engines in service and all the aftermarket they're going to bring to bear.

And then Collins, again, the three buckets I just talked about, we think we can continue to drive margins in that business as well.

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

Now, if we pull this all together, you've guided to $8.25 billion to $8.75 billion in free cash flow this year. How should we think about that? Two ways, one is, are there some levers here that can provide upside to that? And then second, can you give us a sense of where that may go beyond 2026?

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

Yeah. Well, again, we had a really strong free cash flow performance in '25, Doug, right up at that $7.9 billion. This year, we feel comfortable with the guidance that we've provided. And I just think if you look long term at our ability to generate free cash flow, we've got all of the structural pieces in place to be, again, 90% to 100% of adjusted net income as free cash flow. I think that's what this company is structured to do.

When you think about the positions we have on the fastest-growing platforms, when you think about the aftermarket content that we have across Pratt and Collins, and when you think about the franchise programs at Raytheon, it's got the ability to continue to drive to those cash levels.

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

Great. Well, we're out of time here, but Chris, thank you very much -- this was great.

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

Thank you, appreciate it. Thanks, everybody.
