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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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PRESENTATION

John Godyn - *Citibank - Analyst*

We're very excited to have Chris Calio, RTX's Chairman and CEO, for a chat with us about a lot of different themes in aerospace and defense. Chris, if you have any initial comments, I want to pass it off to you, and then we'll hit it.

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

Well, thanks, John, and great to be here this morning with everybody. Maybe just one housekeeping item, of course, may be making some forward-looking statements today, subject to all those risks and uncertainties. So please consult our SEC filings.

We know with that out of the way, maybe just brief comment on RTX and who we are. I think many of you know us, but for those of you who don't, leading aerospace and defense company, about \$88 billion in sales last year, three leading business segments, Collins Aerospace, Pratt & Whitney and Raytheon.

Coming off a pretty strong 2025 top line growth, margin expansion, robust free cash flow generation, ended the year with a \$268 billion backlog. So demand very strong and durable on both sides of our business, commercial aero and defense.

And so for us, really, the focus is on executing on that backlog and then, of course, innovating for future growth. We're a long-cycle business. We've got to make sure we've got the capacity in place, the advanced manufacturing in place, and we're continuing to fulfill and fill our technology pipeline. And so we issued our guidance out in January, and so no change there.

QUESTIONS AND ANSWERS

John Godyn - *Citibank - Analyst*

That's fantastic. Where I'd love to start is just we've described RTX as the marquee megatrend stock in our coverage.

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

I like that.

John Godyn - *Citibank - Analyst*

Because of its exposure to all sorts of big picture tailwinds and themes across both aerospace and defense. I'd love to get your reaction to that, if you don't mind, and then we can kind of step through the segments. But big picture, what tailwinds, what growth opportunities are you most excited about in the years to come?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Well, John, I think you're right. So maybe just step back for a minute and to your point, and we lay out sort of the macro environment that we're operating in. On commercial aerospace, obviously, the industry has come back very, very strong from the pandemic. RPK growth continues to be strong, 5% last year, another 5% this year. Beyond that, there's demand for 40,000 aircraft over the next 20 years. That's actually more than the installed base today. So a ton of deliveries still to come.

Again, I will tell you on the defense side, you know what's going on in the global environment. There's the replenishment opportunities here in the US. There's the NATO getting their budgets up to that 3.5% core. If you look at APAC, MENA, 3% to 4% growth. So just really exceptionally strong macro tailwinds on both the commercial aero and the defense sides.

And then if you just sort of drill down into our portfolio, I think we're very well constructed and positioned to take advantage of those macro tailwinds. If you look at Collins, for instance, you've got \$105 billion of out-of-warranty content flying around out there, generating significant aftermarket returns and tails.

They are number 1 or number 2 in 70% of their product segments. They've got 2x the content on the current generation of platforms than the older generation of platforms. So again, building up that installed base even more to generate even more aftermarket tailwinds into the future.

Pratt & Whitney's got Pratt & Whitney Canada. Again, I don't think we spent enough time talking about Pratt Canada, the premier small engine business, 70,000 engines in service, number 1 or number 2 in each of its end markets.

We've got a very strong military engine portfolio. The only fifth-gen powered fighters are coming from Pratt on priority programs like the tanker and B-21. And then, of course, there's a GTF program, which I'm quite confident we're going to talk about a little bit later, but that program is 3x the size than when we first launched it, and it's got a very strong 8,000 engine backlog. So again, very, very strong there.

And then you just look at Raytheon, you've got 35 systems and operations today across 50 countries, serves as the backbone of many countries, integrated air and missile defense architecture. So just incredibly strong product positioning, well positioned to take advantage of those tailwinds. And you're seeing that play out, again, in the backlog that I mentioned upfront, \$268 billion. That's up 23% since the end of '24.

And then so for us, as I said, focus is on executing on that backlog. We're going to invest another \$10 billion in company and customer-funded E&D and capex this year to make sure that we're finishing on our programs, executing on those programs, making sure we have the capacity in place for the ramp-up on both defense and commercial. So we're very excited about where we sit.

John Godyn - Citibank - Analyst

That was fantastic. There are so many things in there I want to follow up on. But if we just start somewhere, I feel like munitions is a good place to start. We all saw the munitions announcement from a couple of weeks ago. Can you just walk us through how that's going to impact 2026? And what are the next steps for moving from framework to production on that?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. We're really, really excited about that. And frankly, really proud to have partnered with the Department of War on these five framework agreements. I think it's good for the Department and as part of its transformation agenda. I think it's good for national security. I think it's good business for Raytheon. The five frameworks we're talking about, it's all about ramping production over the next decade. And in many cases, 2x to 4x the current rates that we're producing today.

As you mentioned, these are framework agreements. So there's much work to do collaboratively with the Department to get those into definitive agreements. So I don't want to get sort of too ahead of that process, John. But a couple of things I will say. One is the framework agreements are predicated on firm long-term demand, right?

I think most of us in this industry have been talking about the need for firm demand and firm demand signals. And I think the Department has taken that very seriously. And so they want to give us that long-term demand, which allows us to invest in the capacity and just as, if not more importantly, our supply chain to invest in that capacity that's needed. It's a collaborative funding approach, which is good, which is also calibrated into our 2026 guidance.

We'll start putting in some of that capacity in place towards the tail end of this year, I suspect. And then the sales will flow once that capacity is in place and we're producing. But again, very excited about the opportunity. And again, it's building on what is already incredible demand at Raytheon. We've got \$75 billion in their backlog today.

None of these framework agreements are included in that backlog. Those are outside as we work towards definitive agreements. But again, very proud to be a part of the transformation agenda that the Department is driving.

And so for us, it's like how do we go take those production levels up? What do we need to do from a capacity perspective within our own four walls? What suppliers do we need to get up to the higher levels? What investments do they need to make? Are there other suppliers that we need to qualify to make sure that we have, again, enough capacity in the system and the ecosystem to get to these levels. So a lot to do, but very exciting.

John Godyn - Citibank - Analyst

Yes. It sounds like a fantastic opportunity. Can you talk a little bit more about the broader demand signals that we're seeing, missiles, munitions, demand? How does it evolve over the coming years?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Well, as I said upfront, if you just look at -- go around the globe, you've got significant replenishment opportunity in the US. And I think you've seen the budget stand behind that and provide really good opportunity there.

Global defense, everyone knows what's going on in the world, those defense budgets, again, NATO, 3.5% the other regions of the world in that 3% to 4%. And at the end of the day, what people want the most is integrated air and missile defense. And that is something that is core to who we are and what we do. If you just think about all the products that we have in there.

Obviously, our Patriot system, the GEM-T Patriot effector, AMRAAM and the like. I mean I can go through a whole bunch of our, I'll call them, franchise programs. And people are always talking about the need for munitions replenishment. You talked about it upfront. And obviously, our backlog is very strong there. But what I will tell you is we're starting to see people come to the realization that we need a similar potential effort on the sensor front.

So think Patriot, think NASAMS. We've got a next-generation radar coming in, LTAMDS. We've got TPY-2, we've got SPY-6. So clearly, strong munitions demand around the world, but also the need for additional sensors and radars, and we're able to provide those as well.

And I will tell you the other piece, the other threat, of course, that's evolved over the last few years are the UAS and drone, and we've got a very strong counter UAS system that we've developed, the Coyote system that's been highly effective and see that as another big growth engine.

John Godyn - Citibank - Analyst

Yeah. That's great. If we could just talk a little bit more about international specifically and the demand signals there. One of the stats that I love is this idea that 47% of the backlog is international and what that means for revenue growth and margin improvement from here. Would you mind elaborating on that?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah, sure. Again, when you look around the globe and you look at all the hotspots, our equipment, our systems, our products have been incredibly effective in some of the most high-profile situations that we're seeing in the world today, whether that be Ukraine, Qatar, the Red Sea. So that's obviously created a lot of demand for the product. There's also, of course, a very strong installed international -- strong installed base in the international community.

Take Europe, for instance, you've got 9 Patriot countries, 7 NASAMS countries, 20 countries that use the Raytheon effectors. Just look at the Middle East. Again, you've got 50 Patriot fire units there, right? If you just look at some of our large orders in the last year, Patriot GEM-T, an international order, about \$2.5 billion. Our three largest contracts in Raytheon's backlog today are international customers.

So to your point, that 47%, which is up significantly over the last few years, provides the volume that we need for productivity in our shops, provides a better, generally speaking, margin profile. Just think of our 2025 sales, over 30% of that was international. That's up 4 points in just two years. So some really good tailwind in terms of the mix of the backlog.

John Godyn - Citibank - Analyst

That's fantastic and fully appreciate the Patriot comments. Can we talk about Golden Dome a bit, if you don't mind? I feel like we can't leave a discussion about defense without talking about Golden Dome. More and more, we're seeing awards come through. The program is taking shape. What does that mean for Raytheon?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Well, if you listen to how the administration has sort of talked about this, they want to be able to field capability in the next two years to three years. If you want to field capability in that time frame, you're going to need proven battle-tested systems. And I just made my case for some of the Raytheon systems in my last answer. But -- so the idea would be take those proven systems, start to install those and then work over the years on a sort of a technology upgrade sort of plan.

I think that's the construct that may be at play here. I think we're well positioned, frankly. I think it's going to be a multilayer architecture, Golden Dome, space layer and then various ground-based missile and air defense layers.

And Raytheon has premier products at every one of those layers, can't say too, too much about the space layer because of the classification, but have some really interesting solutions there. And then, of course, as you just move down into the other products that I mentioned, Coyote counter UAS, NASAMS, Patriot and then the radar systems that I mentioned before. So really, really well positioned, I think, for Golden Dome as that continues to mature. And again, I'll reiterate, none of that is in our backlog today. So that \$268 billion RTX backlog, Golden Dome is not in there yet.

John Godyn - Citibank - Analyst

Yeah. It sounds like Raytheon has a lot of tailwinds. Moving to Pratt. Whenever you speak publicly, I feel like investors are focused on some sort of update on the GTF. So let me just give you an opportunity to give us a bit of an update, if there is any, with respect to the powder metal issue, whatever you want to talk about.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Well, I like digging into the commercial aerospace. It's half of our business, almost half of our business. And so I know what's going on in the world in defense and rightfully so, it gets a lot of attention. But -- almost half of our business is commercial aerospace. As I said upfront, pretty well positioned given the macro tailwinds.

Before I get into powder metal, maybe just some macro comments on the GTF. Today, we've got about 45 million hours now on the GTF. So all of that learning going into our engineering, our production and our sustainment. As I said before, it's 3x larger than we thought the program was going to be.

So this now has tails 20, 30, 40 years out and an 8,000 engine backlog, a high-quality backlog that still has to deliver. So, so much runway on that program. I would also say the GTF Advantage is slated to get certified this year, and we're starting to produce that engine. So additional thrust and efficiency. So really excited about some of the macros on the program and where it can go long term.

Obviously, we're continuing to work through, as you noted, our powder metal situation. Just from a financial and technical perspective, no change to the outlook, and we had mentioned that back in January. For us, the critical enabler, and I've been pretty consistent about this, is MRO output. We need to continue to drive MRO output in order to get those assets back up to the fleet to take aircraft off the ground and get them back into the hands of our customer.

We had a pretty strong 2025 in terms of MRO output, 26% growth year-over-year, exited the year actually in the fourth quarter, 39% year-over-year. So exited on a really high run rate, really pleased with that. And we saw the AOGs come down in the fourth quarter, and we expect they will continue to come down gradually throughout this year. But again, it's going to come down to the continued MRO output in our shops. We've got 21 shops today.

We're continuing to invest in repair development and automation and automated inspection, anything we can do to drive efficiency and reduce turnaround time. One of the things that we're going to be continuing to do here in 2026, and we did in 2025 is allocating between OE and aftermarket because, again, we've got to continue to bend the curve downward on the AOGs like we've been doing. And again, we've got to make sure the material is flowing into our shops to make that happen.

We're still going to be up year-over-year on an OE basis. But again, that allocation is going to continue to happen here in 2026. I think it's imperative that we do that in order to continue to ensure the health of the overall fleet.

The other thing I'll mention and I talked about the GTF advantage certification, there's a Hot Section Plus package that we're actually going to be certifying at the same time. That's 90% to 95% of those durability improvements that we have on the GTF Advantage. We're going to kit those and start putting them into shop visits on our base fleet today. So they should be getting the benefit of the GTF Advantage durability improvements on that base fleet. So another tailwind in the program to help with fleet health.

John Godyn - Citibank - Analyst

That was fantastic. I appreciate all the detail there. I'd love to chat a little bit bigger picture about engine aftermarket for Pratt as well as other manufacturers, we've seen pretty dramatic extensions of aircraft life, particularly with older technologies. Every year, I feel like it seems like retirement rates should be shooting back, but they're not. They stay very low. Can you just talk about that backdrop as you see it, what it might mean for retirement rate trajectories across aircraft in general, but the V2500 in particular?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Pratt's commercial aftermarket has continued to be pretty strong, 23% growth last year. And that was on the back of like 14% and 20% over the previous two years. And the V2500, to your point, continues to be a big part of that growth story. Yes, we have seen very low retirements.

Part of that is because of the growth in RPKs, Part of it is because we're still recovering on the GTF. So there's strong demand. The engine also performs exceptionally well. So we've seen retirements in that 2% range. And keep in mind, that fleet is still relatively young.

Average age, about 16 years old. 15% of that fleet still hasn't had its first shop visit. 35% still hasn't had its second shop visit. So those are big profitable shop visits as you move out into the future. We did about 800 shop visits last year, thinking on or about the same range this year with some heavier content as it starts to age.

So again, feel really good about the V2500's position in our commercial aftermarket. It's going to continue to be, I think, a growth driver even as those shop visits start to come down gradually, you'll start to see sort of heavier content as well to make up for that.

John Godyn - Citibank - Analyst

I appreciate that answer. Maybe we can move -- before we move away from Pratt, maybe we should talk a little bit about the defense side of things, namely F-35. You've had a good story there. Would you mind digging in a bit?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

No, of course, not. Look, as I said upfront, the military engine portfolio at Pratt, very strong, right? F135, F119, so the only fifth-gen engine fighters, tanker, B-21. So really good growth. We saw, I think, 12% sales growth last year, mid-single digit this year in that portfolio.

F135 is going to continue to grow both in terms of production and sustainment. It's been really a remarkable platform, powers over 1,000 jets, got about 1 million hours in service, unrivaled sort of performance and reliability on that program.

And sustainment, I think, will start to grow, John. We've pushed out some of those scheduled shop visits because the engines continue to perform exceptionally well even in difficult environments. Those scheduled shop visits are now going to start to come in. So that's going to be a bigger part of that portfolio.

And as you look forward on the program, obviously, we're committed to keeping it on the F-35 as its only power plant. And so we're now developing the Engine Core Upgrade, right, which is an upgrade to the core of that engine, providing more thrust, range and efficiency for all three variants to drop in change.

It's also going to have additional power and thermal management capability to be able to take on some of the requirements of some of the next-generation weapons that are going to be hanging off of the F-35. So for us, the F135 is a priority critical platform, which is why we're continuing to invest.

John Godyn - Citibank - Analyst

Yeah. No lack of tailwinds across the portfolio. Maybe we could shift a little bit over to Collins. Collins historically, I would say, distinguished itself through having a lot of operating leverage, both on OE and aftermarket. You've talked a bit about the production capacity there. Can you elaborate on how you see margin expansion playing out, absorption tailwinds? How are these things progressing as we see Boeing and Airbus raise production rates?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah, good question. So when we laid out our guidance for '26, sort of the implied margin expansion at Collins was about 80 basis points at the midpoint of that guidance. And I'd put that expansion maybe into sort of three buckets. One is continuing volume and strength in commercial aftermarket that I talked about previously. Second would be, just as you were remarking, as OE rates continue to move upward, both 737 MAX, A320neo and some of the wide-body, there are absorption benefits in our shops, right?

They are capacitized to higher rates. So as we move more product through those factories, we'll get the absorption benefits and see those drop through. I'll say the third bucket, and this is something that I think the Collins team is exceptionally focused on right now is the continued streamlining of that organization and structural sort of cost reduction.

As you know, Collins, as a general matter, has been the product of a number of large acquisitions that have happened. And I think we've done a good job at integration, but there was more sort of meat on the bone. And so I think the Collins team has really taken up the challenge of continuing to streamline that business and make it as cost competitive as possible. Last year, we had 9% organic sales growth on a 3% reduction in headcount on an organic basis. So continuing to drive productivity in every phase of that business.

John Godyn - Citibank - Analyst

Yeah. No, that's fantastic. And you mentioned that it was pieced together over many years with multiple deals. One of those was B/E Aerospace, interiors. I feel like interiors is always a bit of a strange sticking point every cycle. I hear about interior supply chain issues and other things. Can you just talk about how demand is trending for higher-end interiors? And can you talk a bit about supply chain and production there?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. I just think fundamentally, the interiors business is a really good business and well-positioned business. There are very few companies that can do first-class seating, business class seating, main cabin seating and Collins is one of those on the back of the acquisition of B/E Aero.

Demand continues to be pretty strong. I think airlines, especially in the premium category are continuing to look for ways to distinguish themselves and to make the passenger experience more of their value proposition. And so that plays very well into the capabilities that you see at Collins.

I would tell you that we've worked through some programs which had a difficult sort of certification set of requirements, and bespoke sort of contracts. So we made very good progress on kind of getting those through the certification cycle in '25.

There's a handful or so more here in 2026 that we need to get through. From a supply chain perspective, we saw a nice uptick in sales in the second half of last year in that business on the back of sort of better production flow. So again, I think the business is well positioned. And I think as people continue to reinforce the passenger experience, it will provide more opportunity for that seating business.

John Godyn - Citibank - Analyst

Yeah. Well, we're certainly seeing that demand on the airline side, part of our coverage as well. If we could just take a step back on Collins. I feel like we could talk about Collins all day, but it's the one segment that really crosses all the themes that we're talking about, aerospace, defense. We had this megatrends idea. When you think about the demand signals across that portfolio, are there areas that are interesting, reading the tea leaves, things investors should be kind of focusing more on? Anything to comment on there?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

I think you're right. I think sometimes people strangely even overlook just how well positioned Collins is in its breadth and scale within both commercial and defense, I might add. I gave you some of the statistics sort of upfront, right? I mean 70% of its product segments, number 1 or number 2 in their spaces, 2x the content on the current generation platforms than the older ones, so continuing to grow that installed base. And the out-of-warranty installed base today over \$100 billion. So just generating really strong aftermarket returns to allow us to continue to invest and protect those next-generation positions that it has.

And on the defense side, again, it's -- they support over 70% of the US and allied airborne communications. Maybe think of its mission systems business, its secure communications business, about 30% of those sales are FAR Part 12. So again, higher margin. Maybe just sort of step back, we talked about the Department of War transformation sort of upfront here.

You see them really pushing this convergence, if you will, between commercial and defense. How do you continue to drive commercial applications into defense? I think Collins is exceptionally well positioned to be able to do that given its product history, given its placements on a number of the highest priority platforms in the DoW.

You just saw recently, it's teaming with General Atomics to provide the autonomy on the Air Force's CCA program. So there are a number of things that it does in the -- at a high end on the commercial aerospace side that are going to have application as you continue this transformation and convergence in the defense part of the world. So again, I just -- I think it's just exceptionally well positioned, a fantastic product portfolio and a business that we just think even has more runway and more potential to it.

John Godyn - Citibank - Analyst

Part of the marquee megatrend thesis.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Indeed.

John Godyn - Citibank - Analyst

Can we just double-click on supply chain? I feel like supply chain keeps coming up. We heard it come up in the Textron presentation we did just before this. Maybe we could just talk about at a broader level for RTX. Anything to flag across the company? Any watch items? I guess that's kind of part A. And part B, just supply chain philosophy in general as we're in a world where production rates across a lot of different products are going up.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Supply chain is going to be critical to all of the opportunities that I just talked about for the last half hour. And just in terms of the philosophy, it is interesting. I was just speaking to our teams the other day. One of the mindset sort of shifts that I think we've undergone is to not talk about supply chain like it's some third party.

We are our supply chain. When you go to our customers, their very explicit mandate to us is we're paying you to manage the supply chain. They view them as us. And as a result, we've got to, yes, be out there holding our suppliers accountable for delivering. We've also got to be out there helping them. We've got to give them very clear demand signals. We can't have sort of episodic ordering patterns.

We've forward deployed hundreds of people into their shops helping on things like manufacturing yields and inspections and the like. How can we make it easier to make our products, right? So again, there's a collaborative piece of this that I think we've got to continue to bring to bear in the supply chain if we really want to get to the levels that we need to, both on the commercial and the defense side.

Maybe just sort of step back, like where are we seeing those areas that we pay particular attention to? Well, there's always pockets of disruption in the supply chain. It's what happens in a company and in an industry as complex as ours, but there are a few areas that we spend a lot of time watching, John. One is castings. And you've heard us talk about structural castings at Pratt call after call.

And again, they were up 17% year-over-year last year. But castings sort of writ large is a constrained value stream across both commercial aerospace and defense. And so it's a part of our Collins business. It's a part of our Raytheon business. So making sure that we've got the right casting suppliers and capacity has been pretty critical.

On the Raytheon side, clearly, rocket motors, right? That's sort of been an industry pinch point, seen improvement in 2025, which has been great. We need to see even more improvement as we move forward because the rates are only going to go up.

As I said on our last call, in 2025, our top programs at Raytheon were up in terms of deliveries, 20% year-over-year, and we've got to do even more this year. So we need that value stream to continue to be healthy and step up.

Microelectronics, another place that we focus heavily. I would say the lead times have been good and have been healthy, but we're keeping an eye there just because of demand in the non-A&D space for microelectronics, wanting to make sure that we've got buffer stock and they know what our demand is, and then we're not going to fall behind anyone else in the priority order.

And then maybe the last thing I would mention would just be critical minerals. I know everyone has been talking about that. We were thinking about this a couple of years ago, really kind of focused on the key ones where we needed to set up both buffer but additional suppliers out in the world.

I think the government has been a real partner in this as well, really commend some of the deals that they've done. But we feel like we're covered there in the near medium term, but still some work to do in the longer term in setting up the partnerships and LTAs that we need.

John Godyn - Citibank - Analyst

Yeah. I wanted to ask about CORE. It's something that we've heard on different conference calls. Maybe the first question is just for the benefit of everybody, what exactly is CORE? And then the follow-up is going to be just the progress and where it's going from here.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. Thank you. So CORE is our operating system. It's our continuous improvement and lean operating system that's embedded in everything that we do. It's embedded in all of our functions. It's embedded certainly in our operations. It's about driving continuous improvement each and every day, stacking incremental improvements to improve productivity, improve efficiency and ultimately improve deliveries and financial results.

So that's what CORE is. And we reinvigorated it at the time of the merger. I think Raytheon had sort of its operating system. United Technologies had its. And frankly, we kind of brought them together and took a best of the best approach.

And I think on both sides, at that particular time, at the time of the merger, it could have used some bolstering. And so we did that, and we've really been aggressive about deploying it. And we're really seeing it start to take hold in our company.

I want to say last year, we did almost 12,000, I'll say, CORE events. And an event is when you go in and you've got a problem statement or you've got something you're trying to address and you get all the right constituencies together and you have a process to work that problem to get to the right answer.

And I've participated in these in our shops. I did one at Raytheon on the guidance section for AMRAAM, for instance, did another one at our nacelle facility in Foley, Alabama. And I will tell you, it's inspiring to see the teams attack this, and it's a real democracy. They don't really care who's there and participating. You have to pull your weight and you've got to help get to the right answer.

So we've seen that really continue to take hold in the company. And we've got a ton of opportunities if you just step back and think about it, right? I mean we've got a significant number of labor hours, right? Imagine what a 1% productivity increase there would be. We got \$13 billion of inventory. Imagine what some incremental improvements there could mean in terms of free cash flow. We've talked about the ramp-up here on both commercial aero and defense.

And in some cases, when you want to go build out capacity to meet that demand, the lead times are -- can be two and three years for tooling, test equipment and the like. And so we've got to get really efficient at what our footprint looks like today to squeeze as much as we possibly can out of that.

And sometimes that means bringing in a team and just relaying out an entire production floor for better flow because we don't have time to wait for another 1.5 years or 2 years for a new piece of equipment or a new piece of tooling. How do we get as efficient and productive as we possibly can with the assets that we have sort of in-house today.

And I think CORE is going to be instrumental as we think about some of the framework agreements that we're talking about there. And one of the sort of next steps for us is to continue to deploy that into our supply chain, doing events collaboratively with our suppliers in their shops to drive the kind of efficiency that we need.

John Godyn - Citibank - Analyst

It sounds like we're in the early innings of CORE really having an impact.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Well, look, no, I think it is having an impact, John. If you just look at RTX last year, 11% organic sales growth on flat headcount, okay? So we are starting to see the productivity benefits -- but again, we want to make it not like it's some special thing that you have to do. We want to make it so that it's just ingrained in what we do each and every day. And so there's some opportunity there.

John Godyn - Citibank - Analyst

Got it. And sort of last but not least, maybe we could talk a bit about M&A and the portfolio at large, your views. Talk a little bit about adding, divesting businesses across the broader RTX portfolio. Any areas to prune, any technology gaps that you want to kind of fill capabilities to fill? Just offer some broad thoughts in general.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Yeah. As we step back and look at RTX, almost six years now post creation. We've got more conviction about the strength and composition of the portfolio than we did at the beginning. And again, you talked about it upfront on sort of the marquee macro trends and how well positioned we are there.

So for us, it's not necessarily about what do we need to add to the portfolio. It's how do we get the absolute most out of the portfolio that we have in these leading positions. If you just look at each of our businesses, Pratt, Raytheon and Collins, they have margin runway.

We talk about how do we get to our full potential. And it's about all of the things that we've talked about here for the last half hour or so, but it's getting the most out of those businesses. So for us, it's about the \$268 billion backlog and executing on that as flawlessly as we can because we've got the right product positions. We've got the right customer relationships. The demand is there.

And so for us, it's about the execution. And so we think about our capital deployment, a lot of that is the E&D, both company and customer and the capex needed to continue to get to the levels that we need. And when we talk about capex, it's not only just the expansion of facilities and new testing and new equipment, it's continuing to drive our digital infrastructure.

There's so much data that courses through both our products and our factories. And we continue to make investments on how we harness that data, connect all of our products and machines, so that we can drive better high-quality decisions throughout the portfolio. So that's really where the focus is.

Now as you know, we've done some pruning. We've done some divestitures over the last couple of years, but really, that's around making sure that we're prioritizing where we want to put our investments in the future and making sure that we're as focused and as lean as we can possibly be. But again, for us, the focus isn't on what we would add to the portfolio. It's on execution and innovating for future growth.

John Godyn - Citibank - Analyst

Yeah. That makes a tremendous amount of sense. And sorry, technology gaps or anything that you would flag capability gaps that you think need filling out?

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Well, we've got 10 cross-company sort of technology road maps that we track each and every year to make sure they have the right funding, the right resources things like advanced materials, things like additive manufacturing, autonomy, AI, things that cut across all of our businesses.

We want to make sure that we're doing things in a unified way, leveraging the breadth and scale of the portfolio as best we can. So we're always on the lookout for maybe bolt-on type acquisitions that fit into sort of our core technology strategy.

I talked about the Coyote program before the counter-UAS. That was actually borne out of a technology acquisition that Raytheon did sort of many years ago, and it's ultimately now going to become what we think is the next franchise program.

So we're always on the lookout for things that we can go kind of scoop up and bolt into our existing portfolio. But again, feel very good about the technology road maps that we have, and we've got the balance sheet to continue to invest. As you know, we're in a long-cycle business. You cannot miss a cycle. If you miss a cycle, you can get penalized for decades. So we've got to continue to invest and fill that pipeline at all technology readiness levels.

John Godyn - Citibank - Analyst

Yeah. And the backlog certainly shows that the technology is there.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Indeed.

John Godyn - Citibank - Analyst

We're just about done, Chris. I just want to give you the floor for any kind of concluding last statements, tying anything together, whatever, take us home.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Sure. Well, again, thanks for your time this morning. I love your setup on the marquee megatrends. I couldn't agree more, but it's better that you said it than I said it, I can just agree with it. But again, a very, very well-positioned set of businesses, both commercial and aerospace, a \$268 billion backlog and some opportunities on the defense side that aren't even in that backlog today. So again, I'll just repeat what I said because it's important. It's about executing on our backlog and innovating for future growth. And I think that will put us in a position to drive long-term shareholder value.

John Godyn - Citibank - Analyst

That's a great place to end. Thank you so much for joining us today.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Thank you.

John Godyn - Citibank - Analyst

Appreciate it.

Christopher Calio - RTX Corp - Chairman & Chief Executive Officer

Appreciate your time.

John Godyn - Citibank - Analyst

Thanks.

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