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RTX.N - Raytheon Technologies Corp at UBS Global Industrials and Transportation Conference

EVENT DATE/TIME: JUNE 08, 2022 / 4:10PM GMT

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PRESENTATION

Myles Alexander Walton - *UBS Investment Bank, Research Division - MD & Senior Analyst*

Okay. Great. Welcome back. I know you're all going to be mid bite through your lunch during this session. But at the same time, logistically, on the table, there's a QRC code. Feel free to scan it and put questions into the app. And then if there's time, I'll fold some of those into the discussion. But I'm Myles Walton, Aerospace Defense and Airlines analyst here at UBS. And I'm pleased to have with us from Raytheon Technologies, Neil Mitchell, the company's Chief Financial Officer.

To get right to the conversation, I'm going to hand the floor over to Neil, I think he's got some opening remarks, probably some safe harbor as well, and then we'll get into a conversation.

Neil G. Mitchell - *Raytheon Technologies Corporation - Executive VP & CFO*

Exactly. Thank you, Myles. It's great to be in New York City in person. I know last year, I tried to do this and had a technical glitch about one minute into it. So it's nice to be here in person and see you guys. On the forward-looking statement, I will make some forward-looking statements today, and there are certain risks and uncertainties associated with that, of course. So I'd ask you to please consult our 10-K and our other SEC filings for our documentation on all those risks and uncertainties.

But maybe, Myles, I'll just start with a couple of opening remarks. I think most folks are familiar with Raytheon Technologies, but we are one of the largest aerospace and defense companies in the world. Last year, we had sales of \$64.4 billion. We have 4 principal operating segments, Pratt & Whitney, Collins Aerospace, Raytheon Missiles & Defense and Raytheon Intelligence & Space. This year, we expect our sales to be between \$67.75 billion and \$68.75 billion. So 6% to 8% organic growth. We're expecting a really strong top line. And that will convert to the bottom as well, with EPS between \$4.60 and \$4.80. So really good growth, good margin expansion throughout the course of the year.

If I'd just spend a minute on the first quarter. We had a solid start to the year, I'd say, despite the persistence of Omicron and supply chain constraints, which I'm sure, Myles, you'll have some questions for me on. But nonetheless, commercial aerospace, the aftermarket was up 38%, composite between Pratt and Collins. OE was up in the 11%, 12% range. Military was down, and we'll talk a little bit about that at Collins and Pratt as well. But all in all, we thought it was a good start to the year. We see continued momentum as we get into the second quarter and into the second half of the year as well.

We obviously had some impact commercially from the Russian-Ukraine situation. We kind of addressed that, put that into our outlook for the year. No change to that today. And free cash flow, we're still holding at about \$6 billion for the year. So we feel good about where we're heading there. We put out a placeholder of share buyback of about \$2.5 billion. We did just under \$750 million in the first quarter, and we continue to do that through the second quarter as well.

All in all, I'd say we're on track to meet our 2022 commitments, as well as our longer-term 2025 commitments that we put out to investors in The Street back in May of 2021. There's a lot of headwinds. There's some tailwinds. And I think net-net, we see upside as we look forward in our businesses, albeit some of that out in the beyond 2022 years, but still a really good backdrop for both sides of our businesses. So with that, sort of kick it back to you.

QUESTIONS AND ANSWERS

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Great. Well, you alluded to it, some of the supply chain limitations that you faced in 1Q and there's sort of an ongoing pulse we have to check sort of every company, not unique to Raytheon Technologies by any stretch of the imagination. So maybe just give us an update on some of the limiting circumstances of the supply chain, how those are trending here in the second quarter.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

It's a good place to start. Obviously, one of our top challenges this year is the supply chain. Just to ground everybody, we've got about 41,000 suppliers in our network. About 13,000 of those are product-based suppliers. I would say just over 1,900, we would characterize as really key. Those are suppliers that deliver some really complex parts. About 400 of them, we'd say, have some performance risk right now. This is really relatively consistent with the profile of our suppliers that we've seen throughout this year and as we exited last year. We've got almost 300 people, of our own people, deployed to those suppliers that need a little extra help.

As I think about the areas that we've had the most challenges, let me start with castings. We've talked about castings and the impact that that's had to Pratt & Whitney, particularly on the large commercial engine deliveries there. We have a recovery plan. We're working through that. We expect to be on that plan as we exit second and third quarter and the year. So I think we will be able to manage that with our suppliers. With that comes some higher engine deliveries here in the second quarter with some higher negative engine margin. I had talked about that on the earnings call. So really no changes there.

Rocket motors is another area that we've been talking about quite a bit. And I'd say this principally impacts the missile and defense business. That issue, we expect to continue to persist through this year and into next year, frankly. And I'd say Raytheon Missile & Defense, that segment is the one that is seeing the most pronounced impact on supply chain constraints. And it's not just rocket motors. Certainly, that's one of our issues, but it's also smaller suppliers, labor availability, pockets of COVID popping up here and there. We've seen some easing of the delays that persisted at the end of the year and into the first quarter, but still not quite at the levels of receipts that we were expecting.

So still a good second half of the year ramp there as we think about their guidance, our guidance as it relates to sales, we had said low to mid-single digits. I had said 3%. And we're going to do everything we can to keep working through those supply chain constraints to get to that low end of the range. But I'd say that's where our most pronounced supply chain issue is.

We're also -- another bucket of concern and attention is in microelectronics. This is impacting Raytheon Missile & Defense and Collins. I think we've talked on the earnings call about having some -- we're under allocation from some of our suppliers. So we're really having to stick-handle the amount of receipts that we expect in that particular area. We have good dialogue with those suppliers, but that issue, we do to expect to persist through 2023 or into 2023.

Really, it's about visibility or lack thereof. So today, we're seeing 3, 4 months out, typically, we would have a full year. So it's the lack of visibility on the microelectronics side that's causing us a little bit of consternation. However, we've got our supply chain organization heavily engaged with those key suppliers.

And lastly, no surprise here, I think it's labor availability. Certainly, at the beginning of the year, it was Omicron. We're seeing pockets of the country, the world have flare-ups in COVID and that's causing some delays. But again, all timing-related issues, I think we'll see that, let's hope, subside in the near term, and we aren't dealing with another major variant of COVID.

But all in all, I'd say we are actively engaged in managing the supply chain. We're going to have these issues. This problem won't be resolved this year, but I think we've got a lot of resources focused on it. We're taking in additional inventory where we can so that we can mitigate any shortages. And I think that's the smart thing to do to make sure that we can maintain our customer delivery profiles and we'll manage the cash throughout the course of the year.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

And then the titanium aspect that plays into the engine side, I think there were a couple of issues that were raised both from Russia as well as the supply of castings and forgings. Maybe parse that a little bit more specifically as to where those limitations are and when do they relax so that delinquent deliveries are not delinquent.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

So just to be clear, the casting issue is one that's a domestic supplier, and it's really been around timeliness and quality. And like I said, we've got actions in plan with those suppliers to recover. These are complex parts, but we've got recovery plans, and I feel good about that.

As it relates to titanium from Russia, we spend about \$50 million a year in titanium from Russian suppliers, which, of course, is no longer happening. So it's not a big number, but as we always say, every part is required to deliver our complex equipment.

Well, we got ahead of this. We started working on this back in the fall of 2021 when we saw the tensions increasing. So we had been bringing in buffer stock at that time. We are working alternate sources. And if I just sort of put a time stamp on it, I'd say today, we're in a slightly better situation than we were back in April, in terms of the plans to stand up those alternate sources, some of it's being in-sourced to other sites that we have and some of it's going to other third parties.

Longer term, we have some more complicated parts that we're continuing to find, look for alternative sources. We're working with the customers. From an RTX perspective, all of this is reflected in our financial outlook for this year, will obviously impact some customers more on the small engine side. And again, we're working very closely with those customers to mitigate the impact that it might have to them. And then by next year, we'll have these sources stood up to hopefully alleviate any further issues as you look further down the pike.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Got it. Maybe to shift the lens a little bit from supply to inflation and how that plays into your different businesses and how you're mitigating against those effects. Maybe talk about it in turn from the aerospace commercial to defense and other aspects of the business.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Sure. So clearly, inflation is here to stay. How high and how long, I think, remains to be determined. I'd probably have a different job if I could accurately forecast that. But our crystal ball is saying that this will be here for a while at elevated levels, probably coming down to more normal levels at the end of next year and into 2024.

That said, we're not standing still. We're aggressively working offsets. We've talked about our outlook range this year, contemplating about \$150 million to \$200 million of incremental net headwind from inflationary pressures. Today, I feel like our outlook has that same level of risk, and we've sort of got that captured in our EPS range of \$4.60 to \$4.80.

However, we've talked about 80% of our commercial aerospace products are under a long-term agreement. Those long-term agreements go out multiple years, think 3, 4, 5, in some cases, years. So every year, we're turning over about 20%, 25% of that material. So we're seeing some inflationary pressures, and we're using the leverage and scale of Raytheon Technologies to work with those suppliers to mitigate that as much as we can.

And to offset that further, we'll be ramping up our cost reduction efforts. And I think we'll probably get into talking about cost reduction. But we're going to be able to focus on the things that we can control, and that's our own footprint. That's our productivity. We're investing our capital in automation, all those things designed to offset both wages and product inflation that we're seeing and expect to see continue in the future.

Now on the defense side, we've got about a \$62 billion backlog. I'd say about 1/3 of that is cost based. So we've got the ability to protect ourselves. We do, on the other hand, have some of that backlog that is fixed price or fixed price incentive fee. That said, we tend to enter into agreements as well when we become under contract to try to mitigate or sort of close the gap, if you will, between the cost to us and the price we're getting from our customer.

In new contracts, we're anticipating this higher cost, and we're pricing that in, in our forward pricing. So I expect to be able to recover that principally as we go forward. So we'll have to wait and see where this all comes out. But I think we've got a lot of levers in our hand, and we're able to go execute that in anticipation of continued cost growth in the future. And we've got a good track record of being able to do that. Typically, we're able to drive 1, 2, 3 points of productivity a year to offset normal inflation in the past.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Maybe just shift to the end markets and the demand picture, start on commercial aero. What's your 5-year plan was predicated on? How that's maturing versus what you're seeing play out both domestically and internationally?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

So we feel really good about the commercial aero picture today. Clearly, there's incredible demand for air travel. We're seeing that across the board. We had a good start in the first quarter, as I mentioned already, with 38% aftermarket growth. We expect continued growth in aftermarket this year. As you look domestically, clearly here in the United States, we're seeing travel levels almost at 2019 levels. So I think that's a good sign. And we're seeing the international travel come back, I would call it steadily, not sharply, but steadily moving in the right direction, including the very recent reopening in China. So we're starting to see minor but continued improvement there in the China environment.

This year's plan is predicated principally on that continued recovery domestically, which we're seeing and the Transatlantic and Asia Pacific sort of ex China growth. And I think today, we're continuing to see things play out as we planned, but there's still a ways to go, as we all know, for the rest of the year.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Okay. And maybe to dissect a little bit on the supply side and feeding the OEM customers, rates of 75 at Airbus and unstated upside rates at Boeing. How much believability should we, as investors and you as a supplier, be putting into some of these aspirational targets for 3 years out?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Sure. Well, here's what I would say. We -- clearly, the narrowbody demand is very, very strong, and we're seeing that across the board. We like our position both with Airbus and Boeing because we're on all those platforms in different capacities. And we are supportive of working with both those customers, in particular, as well as Embraer to make sure that we can meet that demand that they see. Now it's not just a -- it's not a demand issue. It's really, in our mind, a supply chain issue. We are capacitized at the Airbus level to be in the, call it, rate 63 range. We exited 2019 almost there. So we certainly have the capability to do that.

But it's not just us. It's not just Pratt, it's not just Collins. It's the entire supply chain that we have to be cognizant of ramping up to those kinds of rates, and that's where we continue to dialogue with our suppliers as well as our customers to make sure that whatever rates we end up at are truly deliverable and frankly, sustainable for a period of time to make those investments make sense. So we're working with them, but we certainly have the capability to go with our customers where they want to go, assuming all that falls together.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

The GTF financial model is always a little bit complex because you've got the negative engine margin, you've got the aftermarket coming in. And if Airbus goes to rate 75 hypothetically, obviously, there's a negative engine margin, but then there's a scale benefit. And then you've got the aftermarket that's coming down the pike. Where -- paint the picture for the cash flow of the GTF, when does it get to be neutral/positive? And also, what sensitivity to how high up Airbus goes on these rates?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

So let me start with the -- on the OE delivery side, clearly, incremental volume is going to be incremental negative margin headwind. Yes, there'll be some fixed cost absorption, things that we've already invested in and that would be great. But there's still going to be a net cash headwind as a result of higher volume. So we'll have to work through that.

My view is that negative engine margin is an investment. It happens to be one that we expense, but every time we sell an engine, we're securing a 20-, 25-year aftermarket stream. So I'm comfortable with the fact that we sell these engines at a loss. That's the business model that we're in today. It's not one that we want to see persist forever. But when we sell those engines, we're happy with the returns that are NPV positive.

The question is really about to what level, for what period of time and you get back to the breakeven. Clearly, that would be a headwind, so that will push it out a little bit, but clearly, a little further down the road, you're going to get those shop visits at year 6, 7 and 8. Today, we see that breakeven. We've talked about probably in the 2027 period, you'll start to see the GTF aftermarket turn positive and then grow as what I call the real shop visit ones come in. To date, we've been doing a lot of overhaul of remediation, basically warranty-type work.

So there's a lot of tailwind ahead of us on the GTF program and that aftermarket will be a substantial contributor, although not quite breakeven in 2025. And I think it will grow from there.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Yes. Maybe to take up on the aftermarket side this year, so I look about shortsighted, how that's trending. I know that I get questions on the widebody driving some of the aftermarket growth you're expecting and whether or not that's actually going to drop through because of the China lockdowns that are happening and maybe APAC a little bit slower. So talk about how your assumptions are playing out with reality.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Yes. So again, it's still early, but I talked about the second quarter being a critical quarter as airlines get ready for the summer travel season. Like I said, there's not a demand issue for travel. We're starting to see some supply issues on the airline side. However, those will likely get worked through. We still feel like we're on the track that we've laid out for the aftermarket recovery, including contributions from both the narrowbody and the widebody. I had said about 80% of this year's growth will come from widebody.

I think we'll see continued narrowbody demand. We saw a 73% year-over-year provisioning growth in the first quarter, which really was the start of some of that widebody preparations.

The other piece of the widebody though, frankly, is the provisioning that goes along with OE deliveries. And that's obviously at a pretty low level right now. So that I don't expect to happen this year, but certainly will be a tailwind as we move out of 2022. We still see, on a full year basis, the Collins aftermarket being up about 20% year-over-year and Pratt being up somewhere between 20% and 25%. So real healthy growth, very consistent with what we had laid out. And in the second quarter, it's going to be at those levels or even higher. So think 20%, 25% for Collins, maybe 25% to 30% for Pratt. Sequentially, sort of low single digits for Collins, Q1 to Q2 and flattish from a Pratt perspective. But obviously, we're seeing the traction there.

Shop visits at Pratt, expected to be up 20%, both on the large and the small engine business. So good healthy pipeline of inductions that will feed aftermarket sales later this year.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

And is the scope of the work going into the shop visits increasing?

Neil G. Mitchill - Raytheon Technologies Corporation - Executive VP & CFO

It is. Yes, particularly on the V2500. Customers, over the last couple of years, were doing more minimalist overhauls conserving their cash, rightfully so. But now we see higher content per shop visit as those airlines are doing a more robust, more full overhaul.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Because one of the other questions I get is around the fleet and potentially cannibalization of the fleet. As OEM deliveries pick up, is there an acceleration? Is there a retirement wave that comes down? And how does that affect Pratt, in particular, on consumption of used service materials or just cannibalization of your annuity streams? What are you thinking there?

Neil G. Mitchill - Raytheon Technologies Corporation - Executive VP & CFO

Yes. So it's something we're always monitoring. We participate in the used serviceable parts market ourselves to help with that, if you will. And I'd say we've contemplated a pretty steep decline in V2500s where we were sitting 2 years ago. We used to talk about 1,000 shop visits a year, now we'll talk about growing back to 850. So at least from a financial perspective, I believe we've got that kind of calibrated in our long-term outlooks, our 2025 outlooks.

But that said, the V2500 fleet is still a very young fleet. It's under 13 years old, 40% of that fleet hasn't seen its first shop visit. And they're excellent engines, as I think everyone knows, they've got a great reliability factor attached to them. And we work with our customers to make sure that they stay flying. So we're constantly engaging with customers to address trade-offs between the maintenance cost and the operating cost. And it's our intention to do that here with the V. I think the V has got a long remaining life on it. And the trade-offs between buying a new aircraft with new engines, which clearly, the GTF is great architecture, 17% when you think about the GTF advantage model that'll be coming out soon. On fuel consumption and with fuel prices where they are, that's very attractive. However, the V2500 is a great performing engine, and we can make it affordable for airlines to fly that through the decade as well.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

What about the outlook for the PW2000s and PW4000s? Where those are in terms of their sunseting, how contributory are they today?

Neil G. Mitchill - Raytheon Technologies Corporation - Executive VP & CFO

It's interesting. These families of engines have been flying for over 20 years. I think the PW2000s, the average age is like 27 years. The retirement rate there is more in the 4% to 5% range, whereas -- I didn't address this, but on the Vs, we're talking 1%, 1.5%, very low recent retirement rates. 40% Of the PW4000s and PW2000s are used to transport cargo.

And so that has been really strong. And we, again, work with these customers to make sure that the cost-benefit analysis makes sense, we can keep these engines flying. They're great workhorses and they contribute a substantial amount to Pratt & Whitney's aftermarket. We expected that to

trail off. So I think we're in a phase of time where their continuation is just extra additional tailwind for the company, particularly as the cargo travel remains high.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

And there was a V2500 sort of question that spurred, the 1,000 that you used to target and then 700 to 800 and 850 round about that area, what is the reason for that lower level? And it seems like not everyone is of that same mindset, your partners still think maybe 1,000 is the right number. Is it just conservatism? Or is there something that fundamentally changed?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Well, I think we're trying to make sure we are realistic that we -- during the COVID pandemic area, we really did lose a couple of years of some deliveries. And now that is being replaced with GTFs and more efficient engines, so we believe that at least in our outlook, that the GTF is going to be the engine of choice and we've sort of accounted for that loss of a couple of years in that outlook. And the fact that now airlines are able -- they've had more time, they've been able to take these GTF-powered aircraft, and that's resulting in -- that's sort of taking into account the higher retirements that we're expecting.

If it's higher, that will be great news. But right now, I think we're still pretty consistent with our outlook there. We did a little over 600 shop visits last year. We'll be about a little north of 700 this year. So we're certainly making good progress back towards that 850 kind of a number, and perhaps it's a little higher. It will all depend.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Okay. So to transition to defense, RMD, you mentioned is the area where you probably have the steepest uphill climb to get to growth for the rest of the year. But maybe both at a high level and by segment, describe what your outlook is for the growth of the defense businesses.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Sure. So let me start with Collins. Collins, we expect the defense component of their business to be up in the sort of low single-digit range. They're -- it's about 25% of Collins' sales. And obviously, they play on a lot of platforms, a lot of systems, support RIS and a lot of other programs. So we see good growth there. And again, they've got a second half ramp in that business as well, impacted by the microelectronics, in particular, issues in the supply chain and these sporadic localized COVID flare-ups. But feel good about the backlog for sure. It's really just about execution.

At Pratt, we expect the military to be down low mid-single digits, and that's sort of a transition year, where the F135 volumes are down a little bit. We account for F135 engines on a cost-to-cost basis, so receipts were real strong over the last couple of years. We're sort of seeing that level out. The sustainment piece of the F135 program is growing and will continue to grow as you go out through the middle of the decade and beyond. So that will return to sort of net growth line at Pratt next year, but we're also seeing some of the legacy programs at Pratt and the aftermarket just be down low. Of course, all of that is before the situation going on in Ukraine, where a lot of airplanes are getting a little more flying time. So again, that will be not inside of 2022, but longer term.

At RIS, on a reported basis, they'll be down a little bit because we sold a business that was \$1 billion of revenue. But probably be up 1% to 2% organically this year. So again, the issue that we're facing at RIS is mostly around labor, talent. We've got 5,500 programs that are underway at any given time in that program. And it really is about staffing and making sure that we've got the right people in the right place on the right programs and that team is working very, very hard on making sure that we're bringing in enough folks to meet all that demand. So that's really the issue there.

And then in RMD, I think I covered it, but think about 3% type growth year-over-year sort of at the low end of that sales range, again, actively managing the supply chain risk there, but that is the long pole in the tent for RMD, not a demand issue, very robust backlog. We've already received a number of orders here in the second quarter. We'll probably get into it, but think about \$600 million for Stinger replenishment, \$75 million for Javelin, \$400 million for SPY-6, we've got a \$200 million award for Tomahawk cruise missiles. So we expect a very robust book-to-bill, again, getting on PO, getting under contract, making sure that we can start to bring materials and I expect that to be a '23 and beyond top-line impact, but it bodes very well for the future, and these guys are working really hard to secure all that new work.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

And is that -- when you opened up, you talked about the 5-year 2025 targets and probably upside pressure to that. I imagine it's all coming from the defense side of the house and maybe offsetting the Russian commercial business that was launched. Is that a high-level framework? Or would you like to flesh that out in any way?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

I think that's a good high-level framework. I'm not going to put out new numbers today. But what I would say is clearly, the Russian commercial impact for us, that's going to be here for a while, that's not coming back. I think that's more than offset by longer-term growth on the defense side of the businesses.

As I think longer term -- actually, if I go back 2 years, we thought defense budgets were going to be relatively flat. And here we are in a different administration with very healthy proposed budgets, \$773 billion. We expect that to be over \$800 billion before all is said and done. We saw a \$40 billion supplemental spending bill on Ukraine, about 25% of which is replenishment, which is very much addressable by us and with our products. So longer term, we absolutely see upside there. It is all about getting under contract and making sure we can get all that -- those long lead parts underway, and we're not wasting time doing that.

So I think certainly, as I look out to 2025, we see that benefit. We also see it in other pockets of our business. So RI&S is seeing increased ISR and cyber activity from the ops tempo increase. And what we're hearing about, you guys are seeing the same thing, F135, F-35 aircraft orders, increasing a lot of demand for Patriot, LTAMDS, the next generation of Patriot. So I think we've got a really strong demand signal and it's now about getting under contract and executing.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

So maybe on the F-35 and the F135 engine, in particular, talk to us about the second source potential, how Pratt can outperform such that there's no need for such a second source, right? And what does it say -- what are the capabilities that you're offering in that upgraded engine as you look forward?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

It's a good question. Let me start with some specifics about today's performance, and then I'll get into that. We're very happy with the F135 engine performance right now. We've worked with our customer to improve their ability to increase the maintenance turnaround time substantially. They've reduced it by 50%. And it is an engine that's got over 0.5 million flight hours on it. It is an incredibly safe engine for a single engine aircraft. And I think that's an important factor as you think about what the next step is. This aircraft is under -- is in the process of undergoing its fourth lock upgrade, and it's never had an engine upgrade. And we think the most cost-effective sort of variant to common, low-risk, drop-in solution is an enhanced engine package.

That's the EEP program that we talk about. It's an upgrade. It will increase power and thermal management. It's going to increase the range, increase the thrust. And remember, the sustainment network for this engine is already in place. So we think this is the most sensible option moving forward.

Again, a very safe engine on this aircraft and performing above its specifications that were laid out at the onset. So that's half A for us, and we think that's the most important approach, most likely approach that we think the customer should take.

However, we're also developing a sixth gen engine, the Advanced Engine Transition program. And we believe that technology, which we've developed, we've tested it, we'll go do some more testing later this year, we're well positioned -- the services for the extended range they require in the next-generation aircraft. And so say that's where we are today, Myles. We're really confident in that engine and its performance, and think that with this upgrade, the EEP, we can satisfy the customers' needs.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

So at the top, we started talking about inflation and one of the controls for that was cost reduction. You've obviously been in a cost reduction effort, but where is the incremental opportunity coming from to backfill some of the higher inflationary pressures? And also are there businesses that maybe don't fit the profit profile or the risk aperture going forward?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Sure. So as we outlined in our Investor Day back in May of last year, we've got over \$5 billion of cost reduction actions that are underway. I see upside to that number. And principally, it's going to come from refinement of our footprint focus, enhanced benefits from the millions of dollars, tens of millions of dollars we're spending on digital enhancements in both the foundational way that we operate our business, but also the way we design and iterate and test and validate our products.

So as you know, we set a target of \$1 billion for merger synergies. We achieved that and then some through the first quarter, we were at \$1.1 billion. We had a new target of \$1.5 billion. I think there's upside to that as well. Just yesterday, I was speaking with the team about our footprint in the office, I think there's opportunity to do more. And that's -- in that place as well. So I'm not going to put a new number out there, but we never stop looking for additional cost reduction at RTX, and we'll implement our CORE operating system to do that. We introduced that about a year ago and there's -- most of the company has begun training on that and we're well down the path of a good solid implementation, I think, that will yield significant results going forward.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Is there any savings from the headquarters relocation? Or is that more of a customer-driven product?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

I don't see major savings there, nor do I see major costs. But certainly getting closer to the customers, both our defense customer and our commercial customers, and the regulators, I think, is going to bode well for Raytheon Technologies. It's also a nice hub to bring our business partners and our employees. So we're excited about the move to D.C.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Okay. And one other one, maybe on technology, Raytheon Technologies, within the portfolio. Hybridization, electrification. What's the company's viewpoint on where to focus energies?

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

It's a great question. So we are obviously always investing in a lot of I'll call it, over the horizon technologies. In fact, you probably all saw we just announced the start of Raytheon Technologies Ventures, RTX Ventures. So that organization will be focused on really looking far across the horizon on industry changing, I'd call, disruptive technologies.

But in the core of our businesses, to get to your question, we've got programs underway today to develop hybrid electric engines. When you combine what Pratt & Whitney and Pratt & Whitney Canada in particular have as capabilities with Collins and our electric systems capabilities, we believe that we can design hybrid electric powered engine. We're going to put that on our aircraft and test fly that within a year or 2. So we're investing there.

But we think the nearest term solution is going to be sustainable aviation fuel. And today, the GTF advantage that will come out, the next generation here will be 100% SAF compliant, and that will significantly reduce emissions. But we are -- I've seen some very interesting technologies proposed around using exhaust to be reinserted back into the engine to improve the efficiency of the engine, get more power out of it. We're working on different types of materials to reduce weight from our engines and other systems on the aircraft. So a combination of those areas is where we're focusing today to make sure that we're ready for whenever that next generation of technology gets implemented in the 2030s, so that we're well positioned. We think the geared architecture is the architecture of the future, and then we're going to build upon that with other elements of the engine to make it even more fuel efficient.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Okay. So I think we'll close out with a couple on cash flow, if that's okay.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Sure.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

So you committed to returning \$20 billion to shareholders, give us a sense of the mix of the 2. Also, the R&D amortization tax issue, how that plays into whether you'd still allocate the same amount. And also maybe how you think that gets resolved.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Got it. Okay. So we feel really good about our \$20 billion capital return commitments. We have returned just under \$9 billion through the first quarter. We'll be about \$13 billion by the time we get to the end of this year. You just saw we increased our dividend. So that takes about \$3 billion, \$3.2 billion a year. We've committed to \$2.5 billion a year of stock buyback that will grow just a little bit probably, I think, \$3 billion a year.

We remain committed to the dividend, committed to buying back stock. We'll be looking at M&A as well. So mostly bolt-on type acquisitions. We don't think there's any transformational portfolio actions that we can take or want to take. Certainly some divestiture opportunities that we've talked a lot about, over the next 6 to 7 months I think we'll refine our thinking around whether certain businesses, particularly in the Collins portfolio belong in the Raytheon Technologies portfolio.

But I feel good about our capital commitments. As it relates to R&D, as I've said, that's about a \$2 billion impact to us this year from a cash flow perspective. I should have mentioned that, that \$6 billion does not contemplate us having to make tax payments this year. And spending a fair amount of time in D.C., spend some more time next week talking to folks about why today's law is bad policy, and it puts American companies at a disadvantage to compete with our foreign competitors. And I'm confident that we have bipartisan support. There are some opportunities to get this legislation overturned in bills that are currently going through Congress.

However, worst case, I see this getting resolved at the end of the year. If that's the case, we will have to make an estimated payment in September of about 3/4 of that impact. But I'm not ready to give up on the fact that something can get done before then. So working aggressively. And if -- I do believe it will get overturned. It's just a matter of under what bill perhaps it will take until December to get a tax extenders bill passed.

Myles Alexander Walton - UBS Investment Bank, Research Division - MD & Senior Analyst

Okay. I see we're out of time. So Neil, thanks so much for joining us.

Neil G. Mitchell - Raytheon Technologies Corporation - Executive VP & CFO

Great to be here. Thank you.

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