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PRESENTATION

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. Thank you, and let me welcome you to the second presentation of the Cowen A&D Conference. We're delighted to have with us Raytheon Technology and from Raytheon, Toby Brian, Executive VP and CFO. And I apologize that this is not video too because Toby is looking very distinguished. He has a new goatee, which looks very good. So anyway, that's -- you will miss it at least the next time you see them. So Toby, why don't you go ahead? I know you had a couple of comments to start.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. No, thanks, Cai, and good morning, everyone. I do have a couple of things to start us off with here. First, I need to let you know that I may make forward-looking statements such as comments on future plans, objectives and expected performance. These are subject to risks and uncertainties that could cause our actual actions or results to differ greatly. You should consult our SEC filings for a description of those risks and uncertainties. So with that out of the way, I'd like to just start with a couple of brief comments on how we closed out 2020.

And I'd say, we were pleased with our overall performance. We delivered sales, adjusted EPS and free cash flow that were better than our expectations. Starting with sales and adjusted EPS, while timing of some awards were impacted at -- our RIS and RMD, we saw higher-than-expected commercial volume at Pratt and Collins, which was encouraging. And free cash flow was exceptionally strong in the quarter as it was all year. We delivered about $750 million of free cash flow in the quarter, and that was after $800 million of discretionary pension contributions. That led to full year pro forma free cash flow of $2.3 billion.

Our strong cash performance was bolstered by the aggressive cost-reduction and cash conservation actions we took last year, we executed on our $2 billion cost reduction commitment and significantly overachieved our cash conservation actions, having conserved about $4.7 billion of cash last year versus our commitment of $4 billion. All in all, the recovery so far has largely progressed as we expected. We continue to be encouraged by the ramping vaccine rollouts across the world, and we'll be closely monitoring the recovery trajectory this year to monitor how it's tracking to the assumptions driving our outlook which I'm sure we'll get into here in a few minutes. So Cai, with that, I'll turn it back over to you.

QUESTIONS AND ANSWERS

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. Thanks so much. So I guess the first place to start is what are the key elements of your 2021 guide? And maybe what gave you confidence to provide the outlook in the first place? Boeing didn't, Spirit didn't and many other suppliers didn't, you guys did?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So a couple of things. It's been almost a year since the pandemic hit us, and we've seen the impact, obviously, to ourselves and the industry. We've spent time talking with our customers and suppliers, and I think more importantly or as importantly, monitoring what they've been doing, what their behavior was. And at the same time, there's been tremendous efforts across the medical front regards to a vaccine.

So we're starting to have some line of sight toward a broad immunization, which will lead to confidence in folks wanting to travel again.

We also -- stepping back from it after not providing any real outlook last year. We thought it was important given that we were almost a year into this, to give our best estimate of how we see things. And no doubt, there's still some uncertainties, right, in the coming quarters. So we did our diligence. And as we talked about, we widened the ranges on the outlook compared to what we would maybe traditionally provide, but we feel it provides an accurate and reasonable picture of how we see the year playing out.

That said, when you peel it back, we've got real good visibility until about 2/3 of the business on the defense side. And then on the commercial side, within OE, we're very well aligned with Boeing and Airbus production rates. So it comes down largely to aftermarket being the wildcard. And so given the ranges of outcomes and aftermarket, as I mentioned, we provided a wider range than we typically would. Just to remind folks, we said we saw sales of $63.4 to $65.4 billion; EPS $3.40 to $3.70 and about $4.5 billion of free cash flow. We look to see organic sales growth around flat to up 3%, driven by that tough Q1 comp. And for Q2 to Q4, we see strong organic growth of 7% to 10%. So no change, right, for whether it be Q1, Q2 to 4 or the full year from what we provided a couple of weeks ago on the call.

And just as a reminder, for Q1, since it's the instant quarter here, we're looking at sales of $14.8 billion to $15.4 billion, a decline organically of 18% to 15%, and we have line of sight towards EPS of $0.70 to $0.75 for the quarter. We're going to keep monitoring things and obviously adjust accordingly as we learn more throughout the year.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Great. And so maybe walk us through your macro assumptions for commercial aerospace, like what do you see for OE deliveries, RPMS, vaccine rollouts, that would be very helpful.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. Yes. So I think we're looking at a gradual recovery in the near term, but longer term, we still see return to air traffic levels that -- around the 2019 levels by 2023. And we see narrow-body and domestic travel recovering sooner and the wide-body or international travel a little later. What I would say is we've been monitoring what's happening with the virus, with the -- on the vaccine front. The way we're thinking of it, to get to the high end of our outlook range, we'd expect to have a vaccine widely available here in the U.S. by midyear, and that would help support a strong summer travel season. And as part of that, we'd see RPMs, to your question, Cai, growing 20% to 30% sequentially each quarter.

And that would equate to about a 40% to 50% full year increase. Now the RPMs are going to get driven by higher load factors, which will ultimately play out in improvement in available seat miles. And based upon that 40% to 50% RPM growth, we'd expect ASMs to grow about 20% to 30% for the full year on a year-over-year basis. And that, of course, is what's really going to fuel the aftermarket, which is where we have the most uncertainty in our outlook. As I mentioned, the OEM side of things, we're aligned with Boeing and Airbus on their production requirements. So we're laying that flat with them.

The one comment I'd make, the one unique platform, perhaps from a production point of view for us continues to be the MAX, given the level of inventory in the channel. So we've already delivered about 1/3 of this year's requirements to Boeing. So it's not a huge driver for us this year. And any increase in volume on the MAX will be weighted towards the back half of the year for Collins.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. So I think you've talked about the expected bifurcation of commercial trends. Q1 and Q2 to Q2 to Q4. Obviously, a really tough compare in the first quarter. Walk us through OE and aftermarket flows. And should we look for commercial sales, particularly aftermarket, that shows sequential quarterly gains in the first quarter and the rest of '21?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So let me start with Q1 and then hit the balance of the year or that bifurcated Q2 to Q4 time period. As we said, tough comp in Q1, all businesses, not just Collins and Pratt, had real strong Q1 of 2020 prior to the pandemic hitting us and impacting us from a financial perspective. And even though it's good news with the vaccines being available now, we're in the early stages of that rollout.

So in Q1, we would see commercial OE and aftermarket declines, roughly at the same levels as the last couple of quarters. So a little bit more of the same there. But as you asked, and we've said, I think, more importantly, is the Q2 to Q4 time period to show a more comparable basis of how we see growth this year. So Collins is expected to be up mid-single to low double digits and Pratt, up low double to mid-teens driven by commercial aero recovery. Again, it's a wide range because of the potential outcomes on the aftermarket side. But to give you a little bit more color on the cadence to the part about the sequential assumptions here. We do see Collins growing for aftermarket, roughly 10% each quarter throughout the year, which equates to a high teens to nearly 30% growth rate for the Q2 to Q4 period.

And for Pratt, driven by large commercial shop visits growing 25% to 30% in the Q2 to Q4 period, we'd expect to see similar levels of aftermarket growth for Pratt as well during Q2 to Q4. If I move over to the margin part of the equation, relative to Pratt, keep in mind that OE component and the growth in the Q2 to Q4 period will come with negative engine margin. But we do believe our aftermarket profitability will more than offset that, combined with some of the cost actions that we implemented last year, which would lead to about 30% incremental margins in the Q2 to Q4 period.

In the case of Collins, we see incrementals in that same 9-month period of around 80%, driven by the aftermarket growth, combined with the aggressive cost takeout and a little bit better absorption that comes with the higher volumes. I think the other part I would point out here relative to Collins, they've got real strong businesses within the Collins business unit. They're more platform-agnostic than Pratt. Pratt is more narrow-body focused. So they have more exposure to the overall market, including wide-body. That said, they do have great content on the A320neo from a narrow-body perspective, which we expect will continue to grow this year. The one business within Pratt, really, that is likely to lag the others would be recovery in interiors. It's the business that was impacted the most last year, and it's all driven by -- it's a great business, but it's all driven by the exposure to the wide-body market. And again, as we've said, that part of the recovery we expect to be at the tail end.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. Is there any difference? I mean you mentioned clearly, interiors, you make avionics, there are just lots of different products there. Is there -- and clearly, interior's probably different than the others. But is there anything worth mentioning in terms of the other systems, areas that would be significantly better or worse?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Not really. The Interior one is kind of the outlier there. In general, the businesses within Collins should track the recovery, primarily with the narrow-body platforms, that being a little bit sooner, not that the other areas don't have wide-body exposure, but it's just that much more significant in interior. So that's the only one I'd really call out.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So Boeing, I guess, on their call, indicated that they have 80 787s kind of an inventory as they try to fix this fuselage join issue. Are you kind of in sync with them? Because it looks like while they talk about producing 10, that they're probably at a lower rate today. Are you at a very low rate at the 87, so that could pick up later in the year?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. We have -- they've talked about going down to a rate of 5, and that's what our plan is predicated on our outlook for this year. It does present some headwind that we've accounted for in the Collins plan compared to the prior expectations. But I would say we are -- if they were to increase the rate, that could be some potential opportunity going forward.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. So you've taken aggressive cost initiatives over the last year. What's the net tailwind of these actions in '21? And how should we think about the aggregate benefit of these over the longer term?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So I think the team, across the board last year, did a really good job, a great job around the cost reduction and the cash conservation, made some real tough decisions. And we're always going to look to do better, right? We always want to look to try to automate, improve our processes, look for low-cost ways to build our equipment, reduce our footprint, et cetera.

That said, I think the way to think of it entering here, and I'll maybe talk a little bit about '21 and then longer term. So as we enter '21, what I'd tell you is the E&D and the discretionary cost savings from last year, we expect those to be sustained in 2021. So no year-over-year impacts one way or the other. On the headcount side, there will be some headwinds in 2021 because of the reinstatement of merits that we talked about as well as fewer furlough days. However, that impact or headwind will be more than offset by the year-over-year benefit of all the headcount reductions, right? So net-net, this headcount-related actions, the headcount-related actions, about a $300 million tailwind or good guide in 2021.

I think more importantly, if we think about the longer-term and things that would be more permanent. So the run rate savings from the headcount actions that we've taken and completed are about $1 billion. And that's split roughly 50-50 between direct and indirect labor. So some of that direct piece, so the direct piece may come back as volumes return. But we're not going to try to minimize that, right? We're going to look for better ways through productivity, automation process enhancements, both in our factories and offices. So certainly, a piece of that $1 billion, right? Again, it's split roughly 50-50 direct and indirect. A piece of that will be permanent.

Then there are synergies, right? We've got $1 billion of gross merger-related cost synergies on top of the $600 million of Rockwell Collins. Those will stick with us. And then since the pandemic hit us, we've also announced what we've called some structural changes. We've got about -- we see about $150 million of run rate savings related to footprint, square footage reduction in the office environment. We've talked about -- we've targeted 20% to 25% square footage reduction there. That would produce the $150 million, another $175 million related to the new Pratt airfoil facility that we announced back in October. And then on our call a few weeks ago, we talked about some manufacturing consolidation that RIS is undertaking here that would be expected over time, over about a 10-year period, save us $160 million.

So we're not done. We're always going to look to do more, but I think very pleased with what we've done in the near-term and the part of that, that's going to carry on over time.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So you mentioned the -- on those last, and thank you for that, about a little under $500 million of initiatives. How do those roll out? Because, obviously, it's -- I think it's 23 that the airfoils come on stream. How should we think about when those kind of really start to impact you?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So good memory, the airfoil facility, it's a couple, 3 years away, right, and before we get to full volume. So we'll start -- that $175 million won't start -- it won't be at full rate in 2023 as we ramp up the facility, but it will build up over the next several years beyond that. Similarly on the office

-- the square footage reduction, we're going to start that this year. We have line of sight to -- I think we've talked about, we've got about $32 million of square footage related to office space, so take out close to $8 million of that.

This year, it will be in the $1.50 million to $1.7 million range. And again, that will grow over time. Some of that is going to be timed to lease expiration dates, obviously, and the like. But that will take a few years before we get to that $150 million or so. And then on the RIS effort, that will start paying benefits in about 4 years. That's a little bit longer term. We're at the very early stages of that. So think the start of the benefits in the 2025 time period, a little longer, further out in time.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. So everybody talks about commercial. Everybody talks about cost saving. Everyone ignores the one piece of your business that's consistently produced the good numbers. So maybe update us. Defense, how is defense doing?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. No, you make a good point, right? I mean, we have 4 businesses, and they're all world-class businesses, defense being no exception. So I think we feel good about the outlook we provided for 2021. Let me start with RIS and RMD, and I'll hit Collins and Pratt as well because I think sometimes folks forget they have the decent...

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Exactly.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Defense component within those businesses there.

So for RIS and RMD, for the full year, we're looking at low-to-mid single-digit growth on a pro forma basis for both businesses. We won't be talking about this much beyond the next couple, 3 quarters. But a little bit of a tough compare in Q1, 2, because from an accounting point of view with the merger, they had the EAC reset that didn't affect their Q1. So strong Q1, strong margins there.

As we look to Q2 to Q4, similar to what we did for the commercial businesses, we'd expect both of those businesses to be growing in the mid-single-digit range. If I peel it back and talk first a little bit about RIS. For them, their growth, we see that coming from sensing and effects, and a lot of that is driven by the next-generation Jammer program as we continue to ramp up there. But we also see some strong growth, probably no surprise in the classified environment, in particular around ISR and space programs.

And then about 50 basis points of growth from the Blue Canyon acquisition that we closed right towards the end of 2020. Just as a reminder for folks, right, Blue Canyon has expertise in small sats and spacecraft components and strategically, it helps RIS to bring a broader range of solutions to the customers around space-based capabilities, which is a growing area that we feel is going to continue well into the decade and beyond.

So very well complementary to what we already had in the RIS business. Margin-wise, we'd expect RIS margins to improve year-over-year in '21, even with the tough Q1 comp, as that percent complete grows as well as seeing better productivity in the business.

If I shift to RMD, the growth there is coming really from ramp-up on the SM3 and the continued ramp on the SM-3 and SM-6 multiyear awards that came in one at the end of 2019 and one in Q1 of 2020 and also a ramp-up on the TPY-2 radars. Margin there is a little bit tougher. We're looking at roughly flat margins over -- year-over-year, mostly driven by the Q1 comp.

There is some mix shift with a few international production programs winding down. And again, if you look at that Q2 to Q4 period, that's really where their growth is concentrated, would expect their' profit to grow in absolute dollars in that period by $150 million to $175 million year-over-year. And as I said, I don't want to exclude Collins and Pratt because they had great years last year on the defense or the military side. Strong growth in both businesses. Collins grew 9% organically and Pratt grew 14%.

This year, for 2021 at Collins, we'd expect their military business to grow in the low- to mid-single-digit range organically. Really with growth kind of spread across their key platforms across the business. Now Pratt, after that 14% growth last year, we're looking at maybe down to in line down slightly in line with 20. The OE production levels on the F135, they're largely stabilizing, while the aftermarket is continuing on a ramp. And we see the other major aftermarket programs there being flat to down a little bit after they contributed to some of that strong sales growth in 2020. But we feel good about the defense outlook. And as I mentioned earlier, it's about 2/3 of our portfolio this year and last year, given the depressed commercial market.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

That's a terrific review. Thanks so much. So maybe update us on the key defense, new business opportunities you have both at legacy Raytheon and the UTX businesses.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes, sure. So a lot of opportunities out there, both domestically, internationally, and I'll hit on a few key competitions, too. I'll start with one that really spans across all RTX, right, both heritage or legacy companies, and that's really related to the F-35, whether it be for engine production and aftermarket support, but also systems at both Collins and RIS there. So we see a number of opportunities on that platform.

In RMD, some of the usual suspects for their missile production awards, AMRAAM, AIM-9x, SM-2 and also some International Patriot awards for RMD. In RIS, I don't know, other than next-gen Jammer, which is part of the sales equation that I just mentioned, really, across the entire portfolio. And just as a reminder RIS, the characteristic of that portfolio, they have a ton of programs that aren't huge, right? They don't have many billion-dollar programs. So they're seeing pretty good awards, whether it be classified, in cyber, training, communications, mission support, really across the portfolio. And if anything, as I mentioned, next-gen Jammer stands out a little bit, some of the key competitions that are out there right now, next-gen interceptor for RMD.

Next-gen OPIR for RIS spends, which is an enterprise collaboration effort primarily between RIS and Collins and the B52 re-engining program that relates to both Collins and Pratt. On top of that, we can't get into names here, but some -- or the names wouldn't mean anything. Some classified competitions in space and also some hypersonics. When you step -- when I step back from it, we like our hand here that we have to play, and we feel good about the technologies and the capabilities, how we're positioned and feel that we're going to achieve some meaningful wins on these competitions.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So if you look at all of that, I think we asked Northrop before you. I think they have projected, they expect their backlog to remain relatively flat. You had a year with good -- and certainly at legacy Raytheon, a good positive book-to-bill above one. Any rough sense does it look about flat or anything you can say or maybe you can't?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

No. I think sitting here today, we'd expect to be able to grow the backlog. We've had, to your point, we had on the legacy Raytheon side, a pro forma book-to-bill last year of like 1.06, 1.07. And a couple of years before that, if you remember, it was even higher, right? One year was 1.25 and the like. So we've had a really good run. But I think there's the ability here, depending upon how a few of these orders land for us to continue to be able to show a little bit of growth in the backlog.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. And so we've got a Democrat controlled government now. What are your thoughts on the DoD budget? What are the drivers do you think can allow your defense business to grow even if the budget is flat or maybe down, which some people expect? And is international a good sales opportunity for you?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So I think when we step back from things and think about with the change in administration and the change in Congress, as you mentioned, some things haven't changed, right? The threats are still out there, whether it be the threats our nation is focused on and concerned about or our allies. The NDS still exists, and it calls for those high-end capabilities for the warfighter, right, to address those threats. And we do believe we're going to continue to see, as we have for a few years now, several years now, a strong bipartisan support for a strong defense here.

So despite the change, we feel that the environment still is supportive of strong spending on defense. Even if it's flat, to your point, right, which we'll find out in a little while where the administration is going. But we do feel that the threat environment hasn't changed, and our technologies and capabilities are very well aligned with that. And we've talked about that for several years now where we've made our investments, the higher volume in classified work that we had seen over the last several years, which are the precursor to a lot of programs transitioning from development into production. We feel really, really good about how we're positioned, whether it be related to space, which we believe is going to continue to be a focus area, hypersonics, cyber. As you know, Cai, we've got the LTAMDS program, which is the replacement for Patriot. We've got a strong position on our interceptors with the multiyear awards on SM-3 and SM-6.

So I think in the near term, we're very well positioned to continue to capture our fair share and then some and be able to continue to grow the business on the defense side, even in a flat budget environment. Internationally, it's definitely -- remains a key for us and almost 40% of the backlog that's attributable to RIS and RMD remains from international customers, and we don't really see that profile changing materially over time. I think it's worth noting, and everybody has seen the Biden administration and the temporary freeze on arm sales to Saudi and the UAE, right? New administrations come in, they want to do a review of international arm sales and align it to their foreign policy.

I think what's important here is the focus is largely around offensive type of weapons. And I'd tell you, less than 1% of our revenue would really fall in that consumable type of category across the board, never mind to a particular customer or a region. So the majority of our sales are defensive. And the administration has also said that they will continue to support, as an example, Saudi Arabia in defending its sovereignty, right? Again, the defensive type of weapons think Patriot, TPY-2s, early warning radars and the like.

So again, I think international continues to play a key role for us and somewhat of a differentiator going forward and being able to continue to grow our defense business.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So before we leave defense, maybe can you give us an update on where are we with LTAMDS? I mean, how much more -- what you spent last year, what you might spend this year? When does it become a growth driver? And when might we see upgrade orders from international customers?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So the LTAMDS team made great progress last year. They met all their program milestones. From a company investment point of view, we expect that this year, '21 will be the last year of elevated investment for LTAMDS. We plan to step up in the related expenses for this year as we continue to plow through key milestones on the development effort.

Just as a reminder, we're building the first 6 radars on the effort that we have ongoing right now, and we're on track to deliver those to the Army for their test program later this year. We do have a path finder radar that we've alluded to before. It's operational, it's radiating in free space at our test facility, so working well there.

Going forward, to your point about when does this start to ramp up and provide a tailwind from a growth point of view, there's a couple -- 3 things, right? The first thing I'd look for, and it's not going to be huge dollars, but it could be $100 plus million. There are already some preplanned product improvements or P3i type of effort. Remember, this was an OTA, right, or is an OTA and being executed under that construct. So the whole program plan has the preplan improvements assumed or built into it. And then the next major milestone is we would transition to formal production for the first 16 LTAMDS in the 2023 time frame.

The Army is going to go through a pretty extensive test period once we deliver these first 6 radars to them. From an international point of view and actually, from a franchise point of view, we've talked about -- this is a $30 billion franchise for us, right? There are 250 by the time we're ready to go. So beyond the U.S. government, there's about 250 fire units worldwide that will be subject to the upgrade. They won't all take it, but we estimate this is about a $30 billion opportunity there. And another $5 billion for some variance, where we've looked at a couple of different variants to support other short- and long-range radar missions that we feel will come to fruition over time.

So $35 billion plus overall. As far as international sales, there is a lot of interest. The Army has already gained some of the necessary releases for some of the Patriot partner countries to start sharing information with them, and we're going to continue to work with the government to do that because this is a capability that our international customers do want.

Again, that could all come in, in the '24 time frame, I would say, '24 and beyond, when we could potentially start seeing some international orders.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. So thinking about international, while there are these kind of limits on Saudi and UAE, Eastern Europe continues to face the Russian threat. China is clearly an issue with a lot of interest in Southeast Asia for missile defense. If you were to characterize, is that potential still as vibrant as it looks?

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. No, I think for sure, we have -- from a global perspective, that threat environment remains the same in those regions in the Middle East, from Iran relative to the Middle East and that threat there. So we still feel good about opportunities globally because of the Russians, because of China, North Korea, that hasn't really -- it may simmer down in the press every now and then, but the underlying threats are still there, and we believe there's still opportunity there as well.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. So moving on to free cash flow. The bridge you provided in Q4 was helpful. Can you walk us through the major assumptions, particularly the one-timers and structural CapEx investments in '21? And kind of, is this it -- the investments done in '21? Do they turn into cash drivers? Give us some color on all of that, if you could.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes, sure. So we had reported pro forma cash -- free cash flow of $2.3 billion last year. And we kind of normalized that to operational baseline stepping off into 2021 of $3.5 billion, where we adjusted for our one-timers from last year, plus some of the international collections at RMD and discretionary pension contribution.

So if we start with that $3.5 billion, in 2021, the headwinds, right? There's about $500 million for synergy and restructuring-related cash expenses and about $600 million of CapEx for the structural cost actions and some cost reduction products -- projects that we've talked about.

It's fair to assume that some level of this will continue in the next several years. We just talked about a little while ago that a few of those structural projects take a couple, 3 years before they're up and running. So we'll have some tail on this as we move forward. Plus, we want to keep looking at the structure and see if there are smart projects to go invest in to further improve our structure. I think the good news there is that there are offsets, right? We've got about $2.1 billion of operational growth, coming from the segments that get us to that $4.5 billion of free cash flow in 2021. To peel that back a little bit for folks. At the high end of our outlook range, we see about $300 million of operating profit growth from the segments. While we had also highlighted the discretionary contribution we made to the pension in 2020, there's about another $300 million benefit to pension funding in 2021 because of favorable asset performance in 2020 as well.

The balance, think of primarily around working capital. So on a pro forma basis, we had $300 million outflow of working capital in 2020. If you were to add back or back out, I should say the RMD, international receivables of $800 million. That said, our working capital would have been an outflow of about $1.1 billion, largely driven by the commercial aero businesses. So if we're to just hold working capital flat year-over-year, right, that would be a $1.1 billion improvement, all else equal. And then the balance of, call it, about $500 million, $400 million to $500 million, think of those as go gets, things that we're going to go do to further improve inventory or working capital, maybe a little bit of CapEx opportunity and/or organic strength.

But bottom line, we think there's enough opportunity there and feel confident in our ability to deliver the roughly $4.5 billion of free cash flow for 2021.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Great. Excellent answer. So Greg alluded to, I think, on your call that the $8 billion to $9 billion is still out there at some point. Maybe -- I assume it's mostly ops, but I don't know. Any color you provide on that would be very helpful?

And the other point he made is that your cash is really elevated relative to where it normally would be and any benefit you could derive from bringing the cash down, what would you have to see? That would be great.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Yes. So on the first part, relative to the long-term cash flow, right, I think the simple way for folks to think about it is nothing has changed that would not allow us to achieve that $8 billion to $9 billion that was our target for '21 pre-pandemic, right? Nothing has changed in the underlying business, the fundamentals of the business to be able to do that. It's the pandemic and the drop in the volumes, right?

So clearly, when the volumes come back, we would expect to be on the track to achieve that $8 billion to $9 billion. So it's not a matter of if, it's when, right? And that's going to be largely dictated by the shape and the pace of the recovery. I would point out that the cost actions that we've taken will help, right? It will help over the long term, as we talked about here. But volume's the key and we're confident the volume will come back.

Just a couple of other things just to keep in mind, we've all got this R&D tax impact to deal with. New administration, so it's probably still a little bit early to understand how that's all going to play out in the big picture of tax over time.

But remember, that could be a $2 billion cash headwind in 2022. It's no P&L impact, and it's a timing issue over 5 years as the R&D deductions would be capitalized over that time. But again, assuming like-for-like mix, volume and conditions, there's no reason we won't get to that $8 billion to $9 billion of free cash flow.

Yes, I think what Greg talked about on the other part of the question was, we ended the year with almost $9 billion of cash on the balance sheet that maybe need $6 billion, call it, $6 billion versus that $9 billion. And I think it came up in the context of buyback, right? And we've talked about resuming the buyback this year. We put a $1.5 billion call, a placeholder. And we said we'd buy back at least $1.5 billion. We're going to do it opportunistically. And we're going to monitor. I think the biggest thing, it all comes back to the recovery. We're going to monitor that recovery. And if we feel that things are taking hold, consistent with our assumptions there and depending upon what's happening in the market, we'll opportunistically look to go beyond $1.5 billion if we think it makes sense.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Terrific. Thank you very much. I think we're running out of time, but that was a great review. Greatly appreciated. Thanks so much. You have a great rest of the day.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

Thanks, Cai, and thanks for having us at the conference.

Cai von Rumohr - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Super. My pleasure.

Anthony F. O'Brien - *Raytheon Technologies Corporation - Executive VP & CFO*

All right.
