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# EDITED TRANSCRIPT

RTX.N - RTX Corporation at Robert W Baird Global Industrial Conference

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**OVERVIEW:**

Company Summary



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## CORPORATE PARTICIPANTS

**Neil Mitchill** *RTX Corporation - Executive Vice President, Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Peter Arment** *Robert W. Baird & Co Inc - Analyst*

## PRESENTATION

**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Okay, thanks. Good morning, everyone. My name is Peter Arment, senior aerospace defense analyst here at Baird. Very happy to have with us RTX. And with us from RTX, we have Neil Mitchill, who is the Chief Financial Officer.

Neil, thanks again for supporting the conference. A long-time supporter, so we really appreciate your support. Neil's going to make a few opening comments, and then we'll get into a little Q&A.

So Neil, welcome.

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Of course. Thank you, Peter. It's great to be here. Good morning, everybody.

Before I get started, just a couple of legal matters. I'm going to make some forward-looking statements today, so please consult our SEC filings for a commentary on our risks affecting our business.

But maybe more importantly, I think most of you probably know who RTX is. We are a leading aerospace and defense company. We have three industry-leading businesses, Pratt & Whitney, Collins Aerospace, and of course, Raytheon. Very well positioned in the A&D sector, incredible demand for all of our products, and very excited about our future.

Year to date, we've had very strong financial and operational performance. I think we'll talk a little bit about that, Peter. And of course, we're looking at the fourth quarter here with about 51 days to go, and we're right on track.

Back on the third-quarter call, we were able to take up our top and our bottom line, as well as our free cash flow, so there's no change to our outlook today. Just to reiterate it, we expect sales for the year to be between $97 billion and $97.5 billion, that's going to be up 10% to 11% organically; adjusted earnings per share of between $7.65 and $7.75 a share; and free cash flow between $9 billion and $9.2 billion. Again, no changes to our outlook today as we look towards the end of the year.

I'd say globally, the demand for all of our products remains incredibly strong. That's reflected in our $340 billion backlog. And so our focus right now is squarely on execution. Obviously, there's noise in the macro, but today, we're focusing on what we can control, and we think we've got that well understood as we finish this year and look into 2027. So again, long term, very confident in the business, the momentum and the backlog and see top-line and bottom-line growth and free cash flow expansion again in 2027.

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## QUESTIONS AND ANSWERS

**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Awesome. Great summary. So let's just start with -- you really had a strong Q3. You raised your outlook, as you mentioned, $97 billion to $97.5 billion on the top line, and adjusted EPS, you raised that as well. So as you close the year, maybe what are the key kind of operating milestones you're watching? And where do you see the kind of greatest opportunity and the risks against kind of your updated outlook?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure. So just mentioned feeling really good about where we are in the fourth quarter here. We're one month behind us already. All of what we need to deliver is obviously in our backlog and in our shops right now. It's flowing through. So it's squarely on the execution of delivering products to our customers.

So as we think about the OE, that's about being ready for the ramp. I think we're doing very well, particularly at Collins, meeting our customers' needs there. And on the aftermarket, we've seen no changes to our customers' buying behavior there. You've heard the airlines over the last couple of weeks talk about what they're seeing and the resilience in the consumer demand. And so we're seeing that play through as well in the fourth quarter. And then on the defense side, again, just execution.

So as you kind of convert that to delivering financial results, most of that performance is going to come on the back of getting stuff out the door. From a cash flow perspective, it's really going to be about collections at this point in the year. We do expect our inventory to come down a little bit as we exit 2026, but most of that will get hung up on the balance sheet. So it's really about collections from our customers to deliver our cash for the year.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Got it. So good momentum as we think about exiting the year. So if we think about '27, and I know you're not giving formal guidance until January, but you have pointed to sales and earnings growth, operational margin expansion, higher free cash flow, all the things we love. But maybe give some thoughts on the drivers of those top and bottom line around kind of broad brush strokes of '27?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure. You're right. I'm not going to give our full outlook for '27 today. We'll do that on our January call. But I did mention a few things on our third-quarter earnings call. And maybe I'll just sort of reiterate a couple of the moving pieces directionally that we see today.

So obviously starting from a really strong position with the backlog really across the business. So we expect to see top-line growth, expect to see that drop to the bottom line. The segments will all see operational profit growth and operational margin expansion, taking into consideration a couple of the one-time items that we mentioned on the call, in particular the IEEPA refunds that won't repeat.

But if you just kind of break down the business, on the OE side, the production ramp is pretty clear to us right now. We're seeing that not just in the narrowbody, but clearly in the narrowbody aircraft category, but also in our business jet business, our general aviation, helicopters, really seeing continued ramp in demand there across the commercial aerospace platforms.

On the defense side, the demand is very, very clear. Raytheon, in particular, probably a little over 80% of what we think we'll deliver next year in terms of sales is in our backlog. 85% of that or more is fully funded. So even in an environment where we have a continuing resolution, we feel really good about sort of the backstop on delivering those sales for '27.



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And on the aftermarket, I already mentioned the fact that we're monitoring just like everybody the price of jet fuel and consumer behavior and airline behavior, but we've seen no changes to that in the fourth quarter. So while the compares get a little bit more difficult because we've been going through such a tremendous growth period, we still see growth in the aftermarket.

And I think that's further backstopped by a couple of things. At Pratt & Whitney, it's all about getting our Geared Turbofan engines off the ground. And there remains a backlog of engines. And so our shop visits are sold out through 2027. So I feel really good about the aftermarket from that perspective.

The V2500, which powers the legacy A320ceos, also very stable. We've seen 800 shop visits or will see 800 shop visits this year. We're going to see about the same number next year on a higher content as we go through heavier overhauls on those engines over the next couple of years, because half of those engines haven't even seen their second overhaul, which is their heaviest content. So we feel really well positioned on the Pratt & Whitney side.

And then Collins is indexed a little bit more to revenue passenger kilometers. But nonetheless, the growing out of warranty installed base, which today sits at over $105 billion, continues to grow and we continue to support the fastest-growing platforms that are more fuel efficient, so particularly in demand in this environment with twice the content that we had on legacy platforms. And so Collins too sits in a very solid position.

We'll continue to watch the macros like everyone else, but feel really good about sort of the top line. On the bottom line, I mentioned that we'll see operational margin improvement at all three segments. So we're not done with where we think the full potential of RTX is from a margin perspective.

There'll be a couple of headwinds. They're sort of one-timers. We won't have the $0.25 of adjusted earnings per share IEEPA benefit repeat in '27. And then on the last earnings call, I talked a little bit about a cash pension headwind of about $100 million from a cash perspective. If I think about the P&L impact of pension income, it's probably going to be about a $0.30, $0.35 headwind in this rising interest rate environment. But operationally, we'll see adjusted earnings per share grow and the margins expand.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Got it. Perfect. So to support all this growth, you're generating a lot of cash. Obviously, there's a lot of working capital as well along supporting that. Maybe think about how much working capital is needed to kind of support this growth and how you're thinking about that?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

That's a really good question, Peter. In an environment like this where we've got such a tremendous backlog, we have really good visibility to what the next several years of our deliveries are. And we continue to see this strength play through in the aftermarket too, and you can't sell something you don't have.

And so we've put a lot of focus over the last several years in refining our sales, inventory, and ops planning process so we can get better connected and get better flow from our supply chain and through our factories and to our customers. We continue to sit on what we call sold overdue. So there's backlog of things that are placed on order that we need to deliver. So to support that, I do expect us to have a little bit of working capital build as we look into 2027. That said, it's supporting continued organic growth.

Big picture, from a cash flow perspective next year, again, I mentioned a few things on the third-quarter call, we've got some I'll call them non-recurring items. First is powder metal. We're coming down the payment curve significantly there, so we expect about a $500 million tailwind from '26 to '27 from satisfying those obligations.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Which, by the way, came in exactly where you were talking about, or even a little lower, right from three years ago.

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

It's been right on track, Peter.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

I mean, you guys don't get enough credit for that, but I mean, it was certainly -- came tracking exactly what you were thinking.

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Definitely appreciate that. A lot of hard work at the Pratt & Whitney team to make that happen. But we see that coming down, so that'll be a tailwind as we turn to '27. We won't have the IEEPA refunds repeat. That was about a $350 million benefit to cash for '26, and $50 million of that will happen here in the fourth quarter. And the pension headwind of $100 million. Those things sort of net to about a $50 million tailwind. So I'd call that breakeven-ish.

At the bottom line, we'll see segment operating profit grow. And we're going to support this growing demand with higher investments on the capital side. A lot of that will be funded, and I'm sure you have some questions on the munitions framework agreements and the UCAs that we signed. But we do expect some higher investments as we get into '27, but net-net, we'll see cash flow grow between '26 and '27.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Perfect. Perfect transition, let's shift to defense. You've converted four munition framework into potentially, I guess, $70 billion in contracts, Tomahawk, AMRAAM, booked in Q3, SM-6, SM-3 in October. How should we think about the revenue building through the capacity phase toward full rate production around 2030, I think is when that rate is going to be? And beyond those awards, where does international demand most likely convert next?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Good question. Couple of thoughts. First of all, we're really happy with the fact that we're able to move from framework agreements into undefinitized contracts. These are binding contracts. They have robust terms in them and a lot of hard work between ourselves and the Department of War went into getting those things converted into contracts. And so we're now off started investing to capacitize, working with the supply chain to get them on board, that'll be a really important part of success here.

So overall, really good business for Raytheon. It gives Raytheon 10 years of visibility to the demand for these critical munitions. And more importantly, it gives the same signals to our supply chain, which we need to come along with us throughout this entire journey so that they can capacitize as well. And so all of that is underway.

Importantly, these contracts give us some protections that were really important to us, and we got that included in the contracts, where if the funding or the volumes or other things change on the government side, we're protected on the downside. So we can confidently make these investments now and into the future. And if something were to change, we'd be able to recover that under the contract terms.

But that's not the intent of either us or the US government. This is stuff that is in high demand from the customer, obviously, and both us and our customer are incentivized to perform and make these contracts last through its duration.



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In terms of how it's going to happen, how it's going to get recognized, it will be accounted for just like all of our defense contracts. So on a cost-to-cost basis, we'll recognize revenue as we start to incur costs. We have a collaborative funding agreement in place in this contract, meaning essentially it will be cash flow neutral until we get into the production phase of the contract where we start to deliver goods and then we get paid the residual amount for the work that we performed in delivering munitions.

So as I kind of think about that over the next three years, we'll start to make investments in capital. We'll start to make investments in our supply chain. We've already placed purchase orders for tooling and equipment. We will get funding that will show up sort of in our contract accounting math over the next couple of years. And then, of course, we'll get long lead material that starts to come in. And as we do that, you'll start to see some revenue and profit.

Over the long term, as we drive through into that production phase, the last seven years, say, of the next 10-year period, these contracts have the opportunity to be margin accretive to where Raytheon sits even today. And so we're in the mid-12% margins today. But as we drive the scale and the efficiencies through the production phase of these contracts, we think these are likely to drive margins upward from where we sit.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

And the international piece and when you think that's going to convert?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

International, really important. So somewhat maybe overlooked in the Q3 results was the fact that we booked $9 billion of international awards in the third quarter alone.

On a year-to-date basis through the end of September, Raytheon's international bookings are 2.5 times larger than they were for the same period in 2025. So tremendous momentum already, and we see more opportunities ahead of us on the international side.

If you exclude the munitions framework, the two contracts, the Tomahawk and AMRAAM contracts we entered into in the third quarter from our backlog, Raytheon's backlog is 52% international. So really good mix. That will help too with the margins.

And I see more opportunity as we look ahead. I mean, it's Patriot radar systems. It's our next-generation LTAMDS radar systems. It's the GEM-T missile, which is the effector for both of those systems. It's Coyote, our Counter-UAS system that's been highly effective. I could go on and on, Standard Missile. We're really seeing a lot of traction around the globe, Europe, Middle East, and Asia-Pac.

So the next 10 years, we see those budgets growing internationally. And because of our presence in each of those markets, we have a strong localized presence as well. We're pretty confident that we'll continue to see that demand for these products.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Got it. So to support all this growth, obviously, you've got to make some investments in your supply chain and kind of help think about that. So where are the most important bottlenecks today if we think about that and milestones that maybe you're telling your supply chain when they need to be ready, and how you're kind of, I guess, treating the contract funding approach largely upfront cash, things of that nature?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure. So as I said before, the supply chain needs to come along with us all along the way. And we have a dedicated team stood up, in particular at Raytheon, to deal with this massive amount of munitions that we plan to deliver over the next 10 years. And so we've been





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working with the supply chain for the past year to start to tell them about the volumes and get them under contract. So one of the most important milestones will be getting the supply chain under contract.

The key areas of the supply chain I'd say that we're focused are no different than the things we've been talking about for five or six years now, frankly. The good news is the first one is rocket motors and propulsion. We've identified three new suppliers and they come on board in the next couple of years. And so they're well on their way in terms of creating an alternate source for the volumes that we'll see under these programs.

Castings is another area. We talk about it a lot on the engine side, but it's just as important on the munitions side. So we're seeking alternative sources of supply for things that are casting and make up the missile bodies, et cetera. Last year alone, Raytheon brought on 150 new suppliers as alternative sources.

So again, work that's in process, but more to do. And I'd say that's another key milestone. How many alternate sources do we identify for things that in the past we've been able to get away with sole source, but with this level of volume and these production rates, we're going to need to have more than one source.

And of course, microelectronics. So these are very sophisticated pieces of equipment that we sell. And it's high volume to us, but lower volume relative to the industry. So again, putting in place agreements to secure the supply there is really important.

I think as we look at other milestones in terms of delivering here, it's really about -- I talked about the supply chain, it's about capacity as well, not just our capacity, but the capacity deeper into the supply chain. So we are measuring and will continue to be measuring the pace at which the supply chain and we enhance and increase our both capacity and throughput through productivity initiatives along the way. So that'll be a really important thing.

And then as we bring material receipts in, we've experienced double-digit material receipt increases year over year all of this year. That'll be another metric as we get deeper into the preparation time here for production that we'll be monitoring to make sure that we've got the stuff we need to get the equipment out the door on schedule.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Got it. Let's move over to the commercial side. In Q3, RTX commercial OE sales were up 10% year over year. How should we think about the next leg with Boeing and Airbus ramps, the balance between kind of installed and spare engines at Pratt, and any kind of remaining constraints that you're thinking about on the production plans?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure. I'll hit this one quickly. I mean, we are aligned with the OEM manufacturers, generally speaking here. And I'd say, historically, that wasn't always the case. I think we would be ahead of them. But right now, Collins has done a really nice job staying in step with their OEMs, Boeing in particular.

And we've talked a lot about what we're doing at Pratt & Whitney. It's been a balancing act of material between OEM, MRO, spares, as you've mentioned. The demand for all three of those things remains strong. And it will continue to be a balancing act as we go forward, but we will continue to increase our output to Airbus this year as we will next year. And then with the residual material that's available, we'll be balancing that between MRO and the spare engine pool.

We're continuing to see a lot of demand for spares, as you'd expect. This fleet is going to continue to grow very substantially. The Geared Turbofan fleet over the next decade. And so over time, the spare ratio will normalize, but the spare volume will continue to grow. So I think no changes here today and expect to be on track as we enter into --



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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

It's good to be in sync with the OEs on this --

**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

I would say our Pratt & Whitney Canada business, which is the small engine business, same thing. The demand there across all of their end markets remains very, very strong. And we're constrained on the materials, but we're continuing to grow in that business as well on all fronts.

**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

So Q3 in the aftermarket, you grew 16%, I think, organically on commercial aftermarket, and that was despite a little bit of lower RPKs. So a lot of resilience, big installed base, probably some price, think about things. So how are you thinking about like in this environment if airlines start trimming capacity or you see retirements pick up, where would you guys see that first? Or you have an enormous installed base, but how do you think about that?

**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure. As you said, it's a very diverse installed base, so I think that helps. By the way, we've seen 16% organic growth on a full nine-month basis this year too. So really strong aftermarket growth. I do expect the compares to get difficult, but we still see growth.

There's some things that are I think unique and helpful about our current installed base that help to support the aftermarket. We talked about Pratt already, so I won't go deep here, but obviously the GTF aftermarket pretty sold out for next year for sure and beyond. V2500 is stable, the legacy older engines also pretty stable, very high content there.

Collins is where it's a little more indexed, as I mentioned earlier, to the revenue passenger kilometers. But with the increasing content we have there, more and more engines coming off of warranty, because keep in mind, we had significant OE growth over the last four years. And so every year, the population of aircraft that come out of the warranty period is bigger than the year before. And so long as we continue to see robust revenue passenger traffic, we're going to continue to see aftermarket come from that.

Pricing is another lever, as you pointed out. And as we all know, the cost of materials is going up and we're doing everything we can to pass that along to our customers in the confines of our contracts. So we got to be cautious here, like everybody, and watch the behavior of our customers. But as I said, we've seen no change to that so far. And there's some structural things that make our installed base, I think, very resilient over the near term.

**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Yeah. And also the V2500 recovery still is very strong.

**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

It's very good. 800 inductions this year, right on track through the end of the third quarter. See the same level of demand as we head into next year. Retirements have been in line with what we've expected. There are going to be retirements. That's not a surprise to us or the industry.



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But that's all been planned. I'd call it a structural decline. And as I mentioned, the content on these overhauls gets heavier and heavier along with the pricing that we're able to put forth there. So we still see a lot of life in the V2500.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

That's great. On GTF, so your output on the MRO side has increased more than 35%. AOGs have been a little -- they've been stable sequentially. How do you expect the AOG reduction and kind of what milestones should we watch as we think about '27?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Good question. We continue to make a lot of good progress there. We'd always want that to be a little faster than it has been. But I would say, as is typical in the third quarter, coming off of the summer travel season, we always see higher level of removals of engines from airplanes as they go into a bit of a lull before you get back into the holiday season. So we expected that, and that was sort of reflected in the AOG number.

We continue to drive MRO output. As you said, it was up 35% on the PW1100. That's the A320 version of the GTF in the third quarter. It's up about 30% on a year-to-date basis. We expect that to continue in the fourth quarter. So AOGs should trend down in the fourth quarter and continue to trend down into 2027. And I'd say from a financial perspective, that's all been contemplated in our outlooks and as we talked about just a few minutes ago in our powder metal reserves.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Yeah. So it's unfair to ask this question with little time remaining, but on productivity and margins, when you think about the size of RTX, there's a lot of moving parts. But you think about a business like Collins, is there still structural runway there in the margin? Is there opportunities that you guys see just for that business? And then how do we think about just kind of as mix moves around, as OE gets bigger, how are you thinking about kind of the balance between productivity and margins?

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Sure, really good question. I mean, there's a few things I'm pretty excited about at RTX. One is our products, they're exceptional. Two is the momentum that we have and the demand. And three is the fact that we're not at our full potential. And by that, I mean we're not at our full financial potential.

And with respect to margins, as I kind of quickly kind of go around the businesses, Collins, we've talked about being a 19% to 20% margin business. So a really strong third quarter. They're making all the right decisions, very strong focus on structural cost reduction. That will have a compounding effect over the next several years.

We've got the aftermarket that drops through at margins that are accretive to the portfolio. And you've got OE, which we've been talking about for a long time, driving enhanced absorption of our fixed overhead costs. All those things continue to give us confidence that we can get Collins back into that range, if not higher, over the next several years.

At Pratt & Whitney, again, it really hinges on the Geared Turbofan aftermarket. We've got the GTFA, the next version of the Geared Turbofan in production, in service, ramping production over the next couple of years, and the Hot Section Plus, which is the kit that will bring 90% to 95% of that benefit to the engine. So all those things will help to expand time on wing. And over the longer term, will play through the margins in our long-term contracts to drive those margins into where I see low- to mid-teen entitlement for Pratt & Whitney.



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Of course, Raytheon, we talked about getting over 12%. Our outlook for this year at the midpoint is 12.8%. We're not capping the business there. We talked about the potential benefit from the munitions agreements. We have the international mix, and so we see continued tailwind there.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Great. So in our last couple minutes here, capital allocation, probably a great place to end, generating a lot of cash. So how are you balancing kind of the reinvestment, debt reduction, dividends, potential buybacks? Obviously, you did a major buyback three years back. Supply chain resilience, would you acquire a supplier rather than partner with one? How are you thinking about just capital allocation in one big bucket, I guess.

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Really good question. It starts with the ability to generate a lot of free cash flow. We see that continuing. We expect our free cash flow generation capability to continue to be between 90% and 100% of adjusted net income as we look over the long term. So we'll generate a lot of cash, and that's after investing a lot in the business. So priority number one, investment in research and development, ours and the customers' capital. This year, it will be over $10 billion worth, and we expect that to continue. So that's priority number one.

Priority number two, I would say, is the dividend. We've been committed to the dividend. We'll remain committed to the dividend, and we'll continue to grow the dividend. This year, we've talked about paying down debt, and we will do that and wrap up the debt that we took out to do that accelerated share repurchase.

And then it comes down to choices between M&A, bolt-on. We love the portfolio that we have today. We'll probably do a little pruning. You've seen a couple of things get announced, but we're always looking for bolt-on technologies. And then, of course, using the playbook that you're used to seeing us use over the long term in returning capital to shareholders.

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**Peter Arment** - *Robert W. Baird & Co Inc - Analyst*

Terrific. Neil, thank you so much. Thank you, everyone, for joining us. Neil, thanks again for supporting the conference. Appreciate it.

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**Neil Mitchill** - *RTX Corporation - Executive Vice President, Chief Financial Officer*

Yeah. Thanks, Peter.

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