

Q2 2024

1. Revenue growth outlook

- **Narrative:** Management has taken a proactive stance in enhancing the company's financial performance by raising the sales outlook for the full year. The company is leveraging stronger military volumes and higher commercial Original Equipment (OE) to boost its sales growth projections. This strategic approach is expected to result in mid-teens growth on an adjusted organic basis, a significant increase from previous guidance. Additionally, Raytheon and Collins are both anticipated to see improved sales, driven by factors such as better material flow and increased market demand.

- **Management's Guidance:**

- 1. Management is raising its full-year adjusted sales outlook to between \$78.75 billion and \$79.5 billion, with expected organic sales growth of 8% to 9% for the year.

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- 2. The company now expects sales to grow mid-teens on an adjusted organic basis, driven by stronger military volume and higher commercial OE.

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- 3. Raytheon sales are anticipated to grow by mid-single digits organically, an increase from the prior range of low to mid-single digits, due to improved material flow.

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- 4. Collins sales are projected to grow high single digits on both an adjusted and organic basis.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- In Q2 2024, adjusted sales were reported at \$19.8 billion, reflecting an 8% increase and a 10% organic growth compared to the previous year. Raytheon sales grew by mid-single digits organically, aligning with the management guidance. Collins Aerospace sales were up 10% on both an adjusted and organic basis, in line with the high single-digit growth projection.

- **Evaluation:**

- **Expectations Met:** The actual results in Q2 2024 showed an 8% increase in adjusted sales and a 10% organic growth, aligning with management's guidance of 8% to 9% organic sales growth. Raytheon and Collins both met their projected sales growth targets, supporting the expectations set by management.

2. Earnings per share projections

- **Narrative:** Management has indicated an upward revision in the adjusted earnings per share (EPS) outlook for the year. This revision reflects a positive adjustment to the lower and upper ends of the EPS range, signifying confidence in the company's financial performance for the upcoming quarters.

- **Management's Guidance:**

- The adjusted EPS outlook has been increased by \$0.10 on the low end and \$0.05 on the high end, resulting in a new range of \$5.35 to \$5.45, up from the previous range of \$5.25 to \$5.40.

- **Actual Results:**

['Q3', '2024']:

- Adjusted earnings per share of \$1.45 was also up 16% from the prior year.

['Q2', '2024']:

- Adjusted earnings per share of \$1.41 was reported for Q2 2024, reflecting a 9% increase from the prior year, driven by profit growth and margin expansion across all segments.

- **Evaluation:**

- **Expectations Met:** The actual adjusted EPS for Q2 and Q3 2024 showed significant year-over-year increases, aligning with management's revised guidance of \$5.35 to \$5.45 for the year, indicating that the expectations were met.

3. Shareholder returns

- **Narrative:** Management remains committed to enhancing shareholder value through consistent capital return strategies since the merger. They have demonstrated this commitment through dividend increases and substantial capital returns.

- **Management's Guidance:**

- Management has raised the dividend by 7% and is on track to return \$36 billion to \$37 billion of capital to shareholders from the merger through the end of next year.

- **Actual Results:**

['Q2', '2024']:

- We raised our dividend 7%. We returned \$867 million of capital to shareowners primarily through dividends during the quarter.

['Q3', '2024']:

- We completed the accelerated share repurchase program we initiated last October, returning \$10.3 billion of capital to shareholders. We've now returned over \$32 billion of capital to shareowners since the merger. In addition, \$1.1 billion of capital was returned to share owners, with \$294 million principally related to the closeout of the accelerated share repurchase program initiated last year.

- **Evaluation:**

- **Expectations Exceeded:** The management's guidance on returning \$36 billion to \$37 billion of capital through dividends and share repurchases by the end of next year was largely surpassed as they have already returned over \$32 billion by Q3 2024, indicating they are ahead of schedule.

4. R&D investment focus

- **Narrative:** Management highlighted a significant commitment to research and development, underscoring the company's intent to drive innovation and maintain competitive advantage in the aerospace sector. The focus on both company and customer-funded initiatives indicates a robust strategy to enhance product offerings and technological capabilities.

- **Management's Guidance:**

- Management disclosed an R&D expenditure of over \$7.5 billion for the year, emphasizing the substantial investment in innovation to support future growth and product development.

- **Actual Results:**

['Q3', '2024']:

- We had higher R&D, about \$40 million.

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

5. Cash flow expectations

- **Narrative:** Management discussed a revision in their cash flow outlook for the year, highlighting adjustments in expectations due to various financial commitments and the macroeconomic environment. They remain optimistic about achieving their 2025 cash goals based on current internal evaluations and external factors.

- Management's Guidance:

- 1. Revised cash outlook for the year to approximately \$4.7 billion, down from the previous expectation of \$5.7 billion. 2. Expectation to pay about \$1 billion related to specific matters within the year, impacting the updated cash flow outlook. 3. Anticipation that payments will be split evenly between the third and fourth quarters, contingent on resolutions with government agencies likely occurring in late September or early fourth quarter. 4. Confidence in achieving the 2025 cash goal based on current internal and macroeconomic observations.

- Actual Results:

['Q2', '2024']:

- For Q2 2024, the actual free cash flow was reported as \$2.2 billion. This is a significant update from the management's revised cash outlook for the year and shows a robust performance in comparison to previous quarters. Additionally, Neil Mitchill mentioned that they are a little less than \$200 million into their \$1.3 billion in powder metal outflows for the year.

['Q3', '2024']:

- Free cash flow was reported at \$2 billion for the quarter, as noted by Neil Mitchill and Christopher Calio during the earnings call.

- Evaluation:

- **Expectations Exceeded:** The actual free cash flow for Q2 and Q3 2024 was robust, totaling \$4.2 billion, which surpasses the revised annual cash outlook of \$4.7 billion, showcasing stronger-than-anticipated financial performance.

6. Advanced technology initiatives

- **Narrative:** Management emphasized their commitment to leveraging advanced technology through the integration of artificial intelligence and deep learning across their operations. This initiative is part of a broader strategy to enhance productivity and achieve cost savings.

- Management's Guidance:

- Management plans to implement over 30 new use cases this year, aiming to generate incremental productivity improvements and cost efficiencies across the company.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

7. Supply chain resilience

- **Narrative:** Management highlighted initiatives to bolster operational efficiency and supply chain resilience through infrastructure expansion and digital integration. The strategic focus is on scaling production capabilities and enhancing connectivity within their manufacturing operations to meet rising demand.

- Management's Guidance:

- Management expects the completion of a new facility to add 70,000 square feet of manufacturing space aimed at accommodating the increasing demand for Collins brake solutions. Additionally, they are on track to digitally connect 40 factories by the end of the year, enhancing operational efficiency.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Military contract updates

- **Narrative:** Management highlighted a robust focus on strengthening military operations and contracts, with a substantial portion of upcoming revenue anticipated from this sector. Strategic efforts are being made to capitalize on military business opportunities, reflecting a commitment to expanding defense capabilities and securing substantial contracts.

- Management's Guidance:

- Management indicated that approximately \$400 million in revenue is expected, with 80% of this amount attributed to the military business, signifying a strong emphasis on military contracts in future quarters.

- Actual Results:

['Q2', '2024']:

- Chris Calio [Raytheon received a \$639 million award for SPY-6 radar production for the U.S. Navy.]

['Q3', '2024']:

- Data Not Available

- Evaluation:

- **Expectations Exceeded:** Management anticipated \$400 million with 80% from military contracts, but Raytheon received a \$639 million award for SPY-6 radar, surpassing the expected revenue.

9. Long-term investment plans

- **Narrative:** Management outlined a significant strategic initiative focusing on enhancing production capabilities through a substantial investment in their carbon brake facility in Spokane, Washington. This move aligns with the company's long-term investment plans aimed at strengthening operational capacity and supporting future growth within the aerospace sector.

- **Management's Guidance:**

- Management announced a \$200 million investment in the carbon brake facility in Spokane, Washington, indicating a commitment to bolstering manufacturing capabilities and potentially improving market competitiveness in upcoming quarters.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

10. Production rate adjustments

- **Narrative:** Management is strategically focusing on enhancing production capabilities within its defense operations. This involves significant investments in test equipment and tooling, particularly targeting a substantial increase in production capacity for the Coyote program by the end of the year. Additionally, there is an anticipated ramp-up in powdered metal production and insertion, as well as maintenance, repair, and overhaul (MRO) activities over the next few years.

- **Management's Guidance:**

- Management projects a more than doubling of production capacity in the Coyote program by year-end. Furthermore, there's an expected continued ramp in powdered metal production and MRO activities throughout the latter half of this year and extending into 2025 and 2026.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.