

Q1 2024

1. Revenue growth outlook

- **Narrative:** RTX management expressed optimism about the company's revenue growth driven by strong demand in its aerospace segment. The company's strategic focus remains on achieving consistent organic growth across its various business units. This includes Collins Aerospace, Raytheon, and Pratt & Whitney, each projected to contribute positively to the overall revenue trajectory through targeted market strategies and operational efficiencies. Management emphasized the importance of their backlog and market demand as key drivers for achieving their projected revenue targets.

- **Management's Guidance:**

- 1. Management expects to achieve a revenue growth of 5% driven by strong demand in the aerospace segment for the coming year. 2. Collins Aerospace sales are anticipated to grow mid to high single-digits on an adjusted and organic basis, with operating profit growth between \$650 million and \$725 million versus 2023. 3. RTX is on track to deliver full-year sales between \$78 billion and \$79 billion, translating to 7% to 8% organic revenue growth. 4. Raytheon sales are expected to grow low to mid-single-digits organically, with operating profit increasing between \$100 million and \$200 million versus 2023. 5. Pratt & Whitney's full-year sales are projected to grow low double digits on an adjusted and organic basis, with adjusted operating profit growth between \$400 million and \$475 million versus 2023.

- **Actual Results:**

['Q2', '2024']:

- Chris Calio reported that RTX saw another quarter of excellent top-line growth with adjusted sales of \$19.8 billion, which were up 10% organically. Neil Mitchell also confirmed that RTX adjusted sales of \$19.8 billion were up 8% and on an organic basis, were up 10%.

['Q1', '2024']:

- In Q1 2024, RTX reported sales of \$19.3 billion, up 12% organically versus the prior year, which aligns with the management's focus on organic growth. Additionally, revenue for Q1 2024 was \$15 billion, up 7% from Q1 2023. Collins Aerospace saw strong sales growth and 90 basis points of margin expansion, while Raytheon experienced a double-digit increase in material receipts. Pratt & Whitney reported a 23% gain in the first quarter.

['Q3', '2024']:

- RTX's adjusted sales were \$20.1 billion, up 6% and up 8% organically, driven by demand across the business, including double-digit growth in commercial aftermarket and defense.

- **Evaluation:**

- **Expectations Exceeded:** RTX's revenue growth exceeded management's guidance, with organic sales increasing by 12% in Q1 2024 and 10% in Q2 2024, surpassing the projected 7% to 8% organic growth for the year.

2. Shareholder returns

- **Narrative:** Management reiterated their commitment to enhancing shareholder value through substantial capital returns. The company is on a steadfast path to fulfilling the significant capital return commitment made during the merger.

- **Management's Guidance:**

- Management stated their expectation to return between \$36 billion to \$37 billion of capital to shareowners from the date of the merger through the next year.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- We've now returned over \$32 billion of capital to shareowners since the merger.

['Q2', '2024']:

- We returned \$867 million of capital to shareowners primarily through dividends during the quarter.

- **Evaluation:**

- **Expectations Met:** Management aimed to return \$36 billion to \$37 billion of capital following the merger, and as of Q3 2024, they have returned over \$32 billion, aligning with their guidance and indicating they are on track to meet the target.

3. Cash flow expectations

- **Narrative:** Management has outlined their expectations for capital expenditures for the upcoming fiscal year, indicating a clear focus on investment and future growth. This guidance reflects the company's strategic priorities in maintaining and expanding its operational capabilities.

- **Management's Guidance:**

- Management anticipates capital expenditures to be approximately \$1 billion for the fiscal year 2024.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Neil Mitchell reported that free cash flow was an outflow of \$125 million in the first quarter, which was in line with expectations, and represented a \$1.3 billion year-over-year improvement.

['Q2', '2024']:

- In Q2 2024, capital expenditures were reported as \$2,733 million.

- **Evaluation:**

- **Expectations Not Met:** Management anticipated capital expenditures to be approximately \$1 billion for the fiscal year 2024, but actual expenditures in Q2 2024 were reported as \$2,733 million, significantly exceeding the expected amount.

4. Earnings per share projections

- **Narrative:** During the earnings call, management provided insights into their earnings per share projections, reflecting on the anticipated financial performance for the upcoming quarters. The guidance reflects adjustments for recent business activities and strategic decisions impacting the company's bottom line.

- **Management's Guidance:**

- Management anticipates adjusted earnings per share to range between \$5.25 and \$5.40. Additionally, they highlighted an \$80 million year-over-year headwind from the sale of the cybersecurity business, which is factored into the profit outlook.

- **Actual Results:**

['Q3', '2024']:

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

['Q2', '2024']:

- Adjusted earnings per share for Q2 2024 was reported at \$1.41, which represents a 9% increase year-over-year.

['Q1', '2024']:

- Adjusted earnings per share of \$1.34 was up 10% year-over-year.

- Evaluation:

- **Expectations Met:** The management's guidance of adjusted earnings per share ranging between \$5.25 and \$5.40 was aligned with the actual results, as the cumulative adjusted earnings per share from Q1 to Q3 2024 totals \$4.20, indicating the company is on track to meet its annual projection.

5. New product pipeline

- **Narrative:** Management has provided insights into their ongoing efforts in product development and innovation, specifically focusing on the production of GTF engines and addressing challenges in fixed price development programs within Raytheon Defense. These initiatives are indicative of the company's commitment to enhancing its product offerings and overcoming development hurdles.

- Management's Guidance:

- Management highlighted that all GTF engines being delivered to customers' final assembly lines will have full-life HPC and HPT disks, showcasing a focus on enhancing engine reliability and lifecycle. Additionally, they anticipate that the fixed price development programs at Raytheon Defense, which have posed challenges, will transition out of development within the next 12 to 18 months.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. R&D investment focus

- **Narrative:** Management emphasized a significant commitment to research and development, detailing substantial investments to drive innovation and advance new technologies and products. This approach underscores the company's focus on maintaining a competitive edge through continuous improvement and market-responsive product development.

- Management's Guidance:

- Management plans to invest approximately \$3 billion in company-funded R&D and an additional \$5 billion in customer-funded R&D this year to foster new technology and product development.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Chris Calio: "And at the same time, we're investing over \$10 billion in research and development, modernization, and digital capabilities."

['Q3', '2024']:

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

- Evaluation:

- Insufficient Info: Data not available.

7. Lean manufacturing processes

- **Narrative:** Management is focused on improving operational efficiency through optimized turnaround times in their lean manufacturing processes. This strategic focus is intended to maintain consistency with their previous targets, demonstrating a commitment to sustaining operational improvements.

- Management's Guidance:

- Management reiterated their expectation of maintaining an average wing-to-wing turnaround time of approximately 250 to 300 days, aligning with their prior guidance.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Supply chain resilience

- **Narrative:** Management highlighted their commitment to improving operational efficiency and supply chain resilience by expanding manufacturing capacity and connecting factories. This strategic approach is designed to enhance the ability to meet customer demand and support critical programs.

- Management's Guidance:

- Management aims to connect an additional 20 factories by the end of the year to bolster operational efficiency. They plan to invest \$2.5 billion in capital to increase manufacturing capacity in key areas, which will eventually boost the delivery capacity of critical munitions programs by over 50%.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

9. Cost-reduction measures

- Narrative: Management is focused on improving operational efficiency through strategic cost-reduction measures. This includes significant efforts to relocate manufacturing hours to more cost-effective locations, which is expected to optimize production expenses and enhance overall efficiency.

- Management's Guidance:

- Collins Aerospace is in the process of relocating 2.7 million manufacturing hours to best cost locations by the end of 2025, aiming for substantial cost reductions and increased efficiency.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Christopher Calio mentioned the movement of 2.7 million hours to low-cost areas as part of the operational efficiency efforts.

- Evaluation:

- Insufficient Info: Data not available.

10. Commercial aviation recovery

- Narrative: Management highlighted their expectations for the commercial aviation sector's recovery, focusing on maintaining operational efficiency and increasing aircraft availability. The strategic emphasis remains on sustaining the average number of aircraft on ground (AOG) at a manageable level to support the recovery phase.

- Management's Guidance:

- Management projected an average of roughly 350 aircraft on ground (AOG) annually from 2024 through 2026, indicating a stable outlook for aircraft availability as the commercial aviation sector recovers.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

11. Process automation

- Narrative: Management emphasized their ongoing commitment to improving operational efficiency through process automation. This includes plans to enhance production capabilities and focus on turnaround times to ensure a competitive edge in the market.

- Management's Guidance:

- Management announced the opening of two new manufacturing facilities by the end of 2025 to boost production capacity. They also plan to progressively ramp up efforts throughout the year, focusing on improving turnaround times and introducing new materials.

- Actual Results:

['Q3', '2024']:

- Collins' avionics business implemented an automated smart torque system, which resulted in zero torque-related defects and saved over 20,000 labor hours so far this year.

['Q2', '2024']:

- Data Not Available

['Q1', '2024']:

- With regard to overhauled turnaround time, our average wing-to-wing turnaround time assumptions remain consistent with our prior guidance of roughly 250 to 300 days.

- Evaluation:

- Expectations Exceeded: The implementation of the automated smart torque system in Collins' avionics business resulted in zero torque-related defects and saved over 20,000 labor hours, surpassing management's objectives related to process automation and enhancing operational efficiency.

12. International market penetration

- Narrative: Management has highlighted a significant focus on increasing the company's international backlog as a core part of their market strategy and expansion. This approach is driven by a strong performance in international bookings, which has become a substantial component of the company's growth trajectory.

- Management's Guidance:

- Management anticipates continued momentum in international bookings, which accounted for approximately 60% of Raytheon's Q1 bookings. This is expected to provide a favorable tailwind for the company's market penetration efforts moving forward.

- Actual Results:

['Q3', '2024']:

- In Q3 2024, 45% of the bookings were for international customers, and Raytheon's backlog is now 44% international, which is up over 10 points from last year.

['Q1', '2024']:

- The mix of those new orders, about 60% foreign sales.

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Expectations Not Met: Management expected continued momentum with international bookings maintaining a 60% share, but by Q3 2024, this decreased to 45%, indicating a shortfall in meeting the anticipated international market penetration goals.

13. Military contract updates

- Narrative: Management highlighted ongoing efforts to secure both domestic and international contracts, emphasizing the strategic importance of expanding their product offerings to address key market opportunities. The discussion underscored the company's focus on leveraging its product portfolio to capture significant portions of defense contracts related to emerging geopolitical needs.

- Management's Guidance:

- Management anticipates securing both the first domestic Low-Rate Initial Production (LRIP) and international Foreign Military Sales (FMS) contracts within the year. Management identified approximately 30% addressable market opportunities with their product suite in regions like Ukraine, Israel, and INDOPACOM, focusing on products like GEM-T, NASAMS, Patriot, and more.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q3', '2024']:

- Importantly, we booked \$1.9 billion for LTAMDs, the first domestic and international production order for our next-generation 360 degree air and missile defense system. Key awards included \$3 billion associated with our Patriot and GEM-T products.

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Expectations Exceeded: The actual results showed significant achievements, including a \$1.9 billion order for LTAMDs and \$3 billion in key awards for Patriot and GEM-T, surpassing the management's guidance of securing initial domestic and international contracts.

14. Long-term investment plans

- Narrative: Management has outlined a significant investment plan with the announcement of a \$115 million expansion at the Raytheon Redstone Missile Integration Facility in Huntsville, Alabama. This initiative is part of a larger strategic effort to enhance the company's operational capabilities and market positioning over the next few years.

- Management's Guidance:

- The management indicated that the expansion process is anticipated to span three years, with a gradual ramp-up throughout the current year into 2025. This expansion is expected to integrate full-life parts into maintenance, repair, and overhaul (MRO) operations, reflecting a strategic focus on long-term growth and operational efficiency.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.