

Q3 2024

1. Revenue growth outlook

- **Narrative:** Management has indicated a positive outlook for revenue growth, with expectations for both adjusted and organic sales increases. They are adjusting their projections slightly downward in some areas but remain optimistic about overall growth. The company is focusing on strong military volume and favorable commercial engine mixes to drive this growth.

- **Management's Guidance:**

- Revenue growth is expected to be between 5% to 7% for the full year 2024. The company anticipates OE sales at the RTX level to grow approximately 10% compared to the previous year, albeit towards the lower end of prior expectations. Commercial OE is now expected to remain flat for the year, a revision from earlier expectations of mid-single digit growth. Full-year adjusted sales outlook has been increased to a range between \$79.25 billion and \$79.75 billion, up from the previous range. Organic sales growth for the full year is projected to be around 8% to 9%. Collins sales are forecasted to grow in the high-single digits on both adjusted and organic basis, likely at the lower end of this range. Raytheon sales are expected to grow mid-single digits organically for the year. Sales are projected to grow mid-teens on an adjusted and organic basis, likely towards the higher end, driven by military volume and a favorable mix in large commercial engines.

- **Actual Results:**

['Q3', '2024']:

- Christopher Calio reported that demand across the business, including double-digit growth in the commercial aftermarket and defense, remains robust, driving 8% organic sales growth. RTX's adjusted sales were \$20.1 billion, up 6% and up 8% organically. Sales were \$7.1 billion in the quarter, up 6% on both an adjusted and organic basis, driven by strength in commercial aftermarket and defense, partially offset by lower commercial OE volume. Commercial aftermarket sales were up 9%, driven by an 11% increase in parts and repair, a 16% increase in provisioning, and a 6% decrease in mods and upgrades. Defense sales were up 14%, primarily due to higher volume across multiple programs and platforms. Commercial OE sales for the quarter were down 8% versus the prior year, driven by lower narrow body volume, including the impact of the Boeing work stoppage. Adjusted operating profit was \$661 million, up \$91 million versus the prior year. Collins aftermarket was up 9% while OE was down 8%.

- **Evaluation:**

- **Expectations Not Met:** The actual results show 8% organic sales growth and 6% adjusted sales growth, which are below the company's guidance range of 5% to 7% for overall revenue growth, and commercial OE sales were down 8%, contrary to the flat growth expectation, indicating that the revenue growth outlook did not fully meet management's guidance.

2. Earnings per share projections

- **Narrative:** Management provided updates indicating a positive outlook for earnings per share (EPS). They highlighted adjustments to the EPS range, reflecting confidence in operational improvements and market conditions. The updated EPS guidance reflects an optimistic view of the company's ability to enhance profitability and manage challenges effectively.

- **Management's Guidance:**

- Management announced an increase in the adjusted EPS outlook, raising it by \$0.15 on the low end and \$0.13 on the high end. This adjustment sets the new EPS range at \$5.50 to \$5.58, up from the previous range of \$5.35 to \$5.45.

- **Actual Results:**

['Q3', '2024']:

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

- **Evaluation:**

- **Expectations Exceeded:** The management raised the EPS guidance, and the actual results showed a 16% increase in adjusted EPS from the prior year, suggesting that the company's performance surpassed the optimistic projections.

3. Shareholder returns

- **Narrative:** Management highlighted their ongoing commitment to returning capital to shareholders, emphasizing a stable dividend payout and continued share repurchases as key elements of their shareholder return strategy.

- **Management's Guidance:**

- Management indicated that the dividend payout ratio is expected to remain stable at approximately 40%. They also stated that they have already returned over \$32 billion of capital to shareholders since the merger and are on track to meet their target of \$36 billion to \$37 billion by the end of the next year.

- **Actual Results:**

['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. Returned \$1.1 billion of capital to share owners. \$294 million, principally related to the closeout of the accelerated share repurchase program initiated last year.

- **Evaluation:**

- **Expectations Met:** Management's guidance to maintain a stable dividend payout ratio and return \$36 billion to \$37 billion by the end of next year is on track, with over \$32 billion already returned and the completion of a significant share repurchase program.

4. Cash flow expectations

- **Narrative:** Management has provided a detailed outlook on cash flow expectations, indicating a strong focus on maintaining robust free cash flow levels. The company is on track to achieve its free cash flow outlook, supported by strategic capital expenditures and anticipated working capital benefits. These efforts signal management's confidence in achieving high free cash flow conversion rates relative to adjusted net income, while also projecting growth in operating profits and margins at Collins Aerospace.

- **Management's Guidance:**

- Capital expenditures are projected to be around \$1.5 billion for the next fiscal year. On free cash flow, the company remains on track to achieve an outlook of approximately \$4.7 billion. Powder metal outflows for the year are expected to be about \$1 billion, down \$250 million from prior expectations. Management anticipates a significant working capital benefit this year, approximately \$700 million year-over-year. The business is expected to generate 90% to 100% free cash flow conversion against adjusted net income. Margins at Collins are expected to grow, with good operating profit growth next year anticipated to convert to free cash flow growth as well.

- **Actual Results:**

['Q3', '2024']:

- Free cash flow was strong at \$2 billion for Q3, 2024, with \$4 billion achieved year-to-date.

- Evaluation:

- **Expectations Met:** The company projected approximately \$4.7 billion in free cash flow for the fiscal year, and by Q3 2024, they achieved \$4 billion, indicating they are on track to meet their full-year guidance.

5. New product pipeline

- **Narrative:** Management is focusing on expanding the company's product portfolio with the introduction of new products. This aligns with their strategic goal to leverage innovative technologies and maintain a competitive edge in the aerospace sector.

- Management's Guidance:

- Management plans to launch three new products by the end of 2025, indicating a strong pipeline that is expected to enhance their market position. Additionally, the company anticipates significant advancements in the adoption of powdered metal parts as they approach 2025, which could lead to operational and cost efficiencies.

- Actual Results:

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. Supply chain resilience

- **Narrative:** Management emphasized the ongoing efforts to enhance supply chain resilience and operational efficiency. Key initiatives include leveraging supplier agreements to reduce lead times and costs, ramping up production of critical parts such as isothermal forgings, and expanding connectivity across factories. These steps are aimed at improving material flow and ensuring that production capabilities meet future demand.

- Management's Guidance:

- - Management plans to add 15 more suppliers to existing agreements aimed at reducing lead times and costs by the end of the year.

- - A ramp-up in isothermal forging production is expected to continue, with a 38% increase year-over-year, and further capacity expansion is planned for 2025.

- - The company aims to connect 40 factories by the end of the year to enhance operational efficiency.

- - Some shipments are expected to resume later in the quarter.

- Actual Results:

['Q3', '2024']:

- Currently have 45 suppliers utilizing these agreements

- Evaluation:

- **Expectations Exceeded:** Management aimed to add 15 suppliers to agreements by year-end, but successfully onboarded 45 suppliers, significantly surpassing their target for enhancing supply chain resilience and operational efficiency.

7. R&D investment focus

- **Narrative:** Management emphasized their commitment to enhancing product development and innovation through increased R&D investments. This strategic focus is aimed at driving technological advancements and maintaining competitive positioning in the aerospace sector.

- Management's Guidance:

- Management announced a target of a 10% increase in R&D investment over the next two years to support this initiative.

- Actual Results:

['Q3', '2024']:

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

- Evaluation:

- **Expectations Met:** Management's goal of a 10% increase in R&D investment over two years aligns with the higher R&D spending of about \$40 million reported in Q3 2024, indicating that the strategic focus on product development and innovation is progressing as planned.

8. Cost-reduction measures

- **Narrative:** Management has focused on streamlining engineering, supply chain, and manufacturing processes to enhance operational efficiency. Significant efforts have been made to eliminate redundant systems, with a strategic focus on reducing engineering systems and operational costs. The company has also targeted specific materials to achieve cost savings. These measures are part of a broader initiative to realize substantial productivity benefits and cost reductions on an annual basis.

- Management's Guidance:

- The company has eliminated over 265 systems to streamline processes and aims to reduce operational costs by 3% annually. Collins is on track to reduce their engineering systems by 20% this year. The company expects to realize a 10% to 15% cost savings on certain alloys by utilizing a new approach. A productivity benefit of about \$110 million year-over-year has already been seen, with expectations to achieve approximately \$200 million on a full-year basis.

- Actual Results:

['Q3', '2024']:

- So far this year, we've eliminated over 265 systems to streamline our engineering, supply chain and manufacturing processes. In the quarter, net productivity improved \$33 million year-over-year and included an unfavorable impact of \$53 million related to a classified program. Neil Mitchill: "we've already seen about \$110 million of productivity benefit year-over-year."

- Evaluation:

- **Expectations Met:** Management's guidance to eliminate over 265 systems was achieved, and a \$110 million productivity benefit was realized year-over-year, aligning with their expectation of substantial productivity benefits and cost reductions.

9. Portfolio realignment strategies

- **Narrative:** Management has highlighted their strategic focus on portfolio realignment through the divestiture of non-core businesses. This includes the planned sale of the Collins hoist and winch business, as well as the actuation business. The company is also engaged in a comprehensive portfolio evaluation to identify segments that may not align with future strategic goals, with decisions expected as they approach 2025.

- Management's Guidance:

- Management anticipates the completion of the Collins hoist and winch business sale by the fourth quarter and the actuation business sale by mid-next year. They are actively evaluating all business segments to determine their strategic fit, with potential adjustments expected heading into 2025.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.