Raytheon Technologies Corp. (NYSE:RTX) Q1 2023 Earnings Conference Call April 25, 2023 8:30 AM ET

Company Participants

Gregory Hayes - Chairman and Chief Executive Officer
Christopher Calio - President and Chief Operating Officer
Neil Mitchill - Chief Financial Officer
Jennifer Reed - Vice President of Investor Relations

Conference Call Participants

Myles Walton - Wolfe Research
Noah Poponak - Goldman Sachs
Robert Stallard - Vertical Research Partners
Matthew Akers - Wells Fargo
Sheila Kahyaoglu - Jefferies
Peter Arment - Robert W. Baird
Ronald Epstein - Bank of America
David Strauss - Barclays
Robert Spingarn - Melius Research
Kenneth Herbert - RBC Capital Markets
Cai von Rumohr - Cowen

Operator

Good day, ladies and gentlemen, and welcome to the Raytheon Technologies First Quarter 2023 Earnings Conference Call. My name is Latif, and I will be your operator for today. As a reminder, this conference is being recorded for replay purposes.

On the call today are Greg Hayes, Chairman and Chief Executive Officer; Chris Calio, President and Chief Operating Officer; Neil Mitchill, Chief Financial Officer; and Jennifer Reed, Vice President of Investor Relations.

This call is being webcast live on the Internet, and there is a presentation available for download from Raytheon Technologies' website at www.rtx.com.

Please note, except where otherwise noted, the company will speak to results from continuing operations, excluding acquisition accounting adjustments and net nonrecurring and/or significant items, often referred to by management as other significant items. The company also reminds listeners that the earnings and cash flow expectations and any other forward-looking statements provided in this call are subject to risks and uncertainties.

Raytheon Technologies SEC filings, including its forms 8 -K, 10-Q and 10-K, provide details on important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements. Once the call becomes open for questions, we ask that you limit your first round to one question per caller to give everyone the opportunity to participate. [Operator Instructions]

With that, I will turn the call over to Mr. Hayes.

Gregory Hayes

All right. Thank you, Latif, and good morning, everyone. I trust everyone had a chance to see the press release.

It was clearly a good start to the year for RTX, and demand remains strong for both our commercial aerospace and our defense businesses. And I think, importantly, we're seeing some stabilization in the supply chain.

Before we get to the highlights for the quarter, let me just spend a couple of minutes on the macro environment. Starting on the commercial side. Domestic revenue passenger miles are now back to pre-pandemic levels, 2019 levels, as we exit March. This was led by a very strong rebound in China following their zero COVID policy reversal.

On the international front, we have seen continued improvement in RPMs, reaching nearly 80% of 2019 levels. With strong consumer demand and record advanced bookings, we expect total global air traffic to fully recover to 2019 levels as we exit the year.

On the defense side, we're very encouraged by the President's most recent fiscal year '24 budget request of $886 billion. That's up about 3%. And that's on top of last year's nearly 10% top line budget increase. The proposed budget includes broad-based support for many of our key programs, technologies and capabilities, including a request to fund multiyear munitions purchases for AMRAAM. It also prioritizes HACM, that's the Hypersonic Attack Cruise Missile, as the future long-range hypersonic missile. And perhaps most importantly for us, the budget reflects the DoD's decision to move forward with the engine core upgrade for the F135 engine, which we believe is a win for both the war fighter and the taxpayer.

This program will solidify Pratt & Whitney's position on the F-35 and will provide additional thrust, range and efficiency necessary to support the needs of the war fighter well into the next decade.

Looking internationally, we're also seeing strong demand for defense capabilities as our allies prioritize additional defense spending. Poland recently announced plans to spend

4% of their GDP on defense this year. That's the highest level across all of the NATO countries. And we continue to support Ukraine's ongoing needs, including the Pentagon's accelerated deployment of the Patriot missile defense system, adding another RTX capability to the Ukraine mission.

Clearly, the demand environment remains strong across our end markets. And with that as a backdrop, let's turn to Slide 2 for the Q1 highlights.

Importantly, we exited the quarter with a record backlog of $180 billion. This included over $20 billion of new awards from some of our key franchises in the quarter. As an example, RMD received a $1.2 billion award for Patriot for Switzerland. That marks the 18th Patriot partner nation. RIS was awarded $1.9 billion in classified awards. We also delivered solid financial performance with strong year-over-year organic sales growth of 10% and adjusted EPS of $1.22.

Regarding free cash flow, we started the year slowly due to some timings of higher working capital, which Neil will talk to you about in a bit. Importantly, though, we remain confident in our full year outlook of about $4.8 billion of free cash flow. As expected, sales growth was led by commercial aerospace, with aftermarket up close to 20% and OEM shipments up close to 17% year-over-year.

Additionally, in the quarter, we achieved an incremental $50 million of gross merger cost synergies, and we are quickly approaching the $1.5 billion target, with more opportunities still ahead.

On the capital allocation front, we repurchased more than $560 million of our shares in the quarter. And we remain on track for $3 billion of share repurchases for 2023. And as you saw yesterday, we increased our dividend over 7% from $0.55 to $0.59 a share, in line with our commitment to return at least $20 billion to shareowners in the four years following the merger. We've done all this while continuing to invest in R&D, additional capacity, automation and the digitization of our production facilities in order to support our growing backlog. As you can see, we're extremely well positioned for growth this year and well into the future.

Every day, we are furthering our integration to unlock the scale and breadth of RTX, all while driving additional technology synergies and a focus on operational performance.

With that, let me turn it over to Mr. Calio to talk about the progress we're making in regards to our business realignment. And I'll be back at the end for a wrap-up and Q&A. Chris?

Christopher Calio

Well, thank you, Greg, and good morning, everybody. I'm on Slide 3. As you know, we announced back in January, our plan to realign our portfolio into three business units: Collins Aerospace, Raytheon and Pratt & Whitney. And as we said, this realignment has three primary objectives. The first is to better align our market-leading franchises with our customers' priorities, ensuring more effective coordination and collaboration across our businesses. The second is to enhance our performance and capture additional synergies from both a product and technology standpoint. And third, to better leverage our resources to optimize our investments and cost structure.

So let me update you on where we are in the process. After continued internal analysis and customer engagement, we determined the major content shifts within our portfolio necessary to achieve these objectives. First, the multi-domain command and control solutions of RIS and RMD will transition to the Mission Systems strategic business unit within Collins to create a more focused business to support connected battle space opportunities.

Additionally, RIS' Air Traffic Management business will be integrated into Collins' Connected Aviation Solutions strategic business unit, further consolidating what we call the connected ecosystem of flight data and management into one business.

These two moves will put Collins at the center of our company-wide collaboration efforts. They will now be responsible for more than half of our revenue synergy projects.

In parallel, we will move Collins' intelligence, surveillance and reconnaissance business to the new Raytheon business unit, combining complementary sensing and imaging technologies to improve our offerings for multiple customer applications.

And lastly, the new Raytheon business will merge the remaining RIS and RMD businesses into strategic business units aligned around specific customers, such as the Air Force, Army, Navy, space and missile defense. When this is complete, the top customer of each of these strategic business units will account for 70% or more of that business unit sales.

In addition, we'll establish a strategic business unit that will operate like a merchant supplier within the Raytheon business unit. We'll centralize components and subsystems that are sold internally as well as to a broad array of government, commercial and other prime customers. enabling us to sell more effectively into these channels.

As part of this realignment, we're pleased to announce that the new Raytheon business unit will be led by Wes Kremer, currently the President of RMD. Wes has over 20 years of experience across multiple businesses and product lines within Raytheon and is uniquely qualified to lead this business.

We are now in the middle of the implementation phase, including our analysis and validation of targeted gross cost savings. We provide more details on the new design and the implementation status, including those savings at our investor meeting at the Paris Air Show.

So overall, good progress thus far as we remain focused on our goal to operate under the new structure beginning in July.

With that, let's move to Slide 4, and I'll provide an update on the current environment. In general, not a lot has changed since we spoke back in January, and demand remained strong across our end markets. On the defense side, as Greg mentioned upfront, some of the awards we received in the quarter and our record backlog.

On the commercial side, we saw strong aftermarket growth in the quarter as airlines are preparing to support the busy summer travel season. With air traffic increasing and retirements remaining very low, we continue to see strength in parts, repair, provisioning and maintenance across our end markets. Given this demand, our focus remains on ensuring we have the capacity, supply chain performance and operational excellence necessary to meet our commitments to customers.

So let me start and provide some color on capacity. In RMD, we continue to invest in new test equipment, tooling and automation at our Tucson, Andover and Huntsville facilities to support the ramp-up on key programs such as AMRAAM, StormBreaker, SM-3, SM-6 and Patriot GEM-T.

At Pratt Asheville, North Carolina turbine airfoil site, we now have 63% of machining production assets on site and are progressing towards first article inspection by the end of May, on our way to improving productivity and cost in support of the high-volume GTF and F135 programs.

While in Tucson, we recently completed a classified space conversion, bringing our total number of classified seats added over the past two years to almost 1,000, with the expectation of an additional 900 more by the end of '23. This will create the classified lab capacity for RMD to execute on recent development wins such as HACM, HALO and NGI.

Furthermore, we are expanding our MRO network. This past quarter, two new facilities joined the GTF aftermarket network, a second MRO shop in Japan and a 155,000 square foot shop at Delta Airlines TechOps in Atlanta. We, of course, also remain very focused on the health of the supply chain, which continues to be a challenge from a performance and cost perspective.

Starting with performance. While we have experienced stabilization in certain areas, such as electronics, continue to experience challenges in castings, forgings, raw materials and machining. And you've heard us talked before about our in-person support embedded our supplier sites, and that continues to increase.

Today, we are present in more than 400 suppliers, with a focus on high-impact locations. And specific to defense, we have significantly increased on-site support in the last quarter, allowing us to help clear bottlenecks, better execute engineering and quality initiatives and provide improved overall visibility.

And at RMD, this helped yield a 5% improvement in material receipts year-over-year, enabling increased flow through our factories.

Additionally, we held an RTX supplier conference just a few weeks ago, where we engaged with about 70 key suppliers to review detailed action plans to ensure future capacity and to reduce current overdue positions.

On the cost side, the overall inflation picture remains persistently high, and we are attacking those inflationary pressures from several angles.

We have almost 2,000 cost reduction projects ongoing related to our supply chain, both product and non-product, including negotiating better contractual terms, transitioning work to lower cost sources and part redesigns to reduce cost. We're also going deeper into our supply chain to better understand their usage of constrained raw materials, such as aluminum, titanium and nickel, so we can get a complete picture of our embedded spend and to leverage total raw material purchases, drive improved cost positions and secure supply throughout our value stream.

And lastly, we continue to leverage our core operating system to execute on our cost reduction initiatives as well as footprint modernization. As we previously talked about, we have thousands of ongoing projects, many of which are at the manufacturing line or cell level to take costs out of our operations. These range from things like redesigning material and machining flow to reduce labor hours and cycle time, implementing closed door machining to enable the completion of a part in one continuous process without any operator intervention.

But these are relatively small initiatives with short paybacks. They are part of a continuous commitment to improvement and efficiency.

So before I turn it over to Neil to recap the financials, I do want to provide a brief update on the GTF program. As you know, since the GTF program went into service in 2015, we have continued to introduce upgrades and improvements to increase reliability and durability.

With respect to reliability, we have met the target level for dispatch reliability. This is now at mature engine levels. With respect to durability, we have improved time on wing since program inception. Again, time on, meaning how long engines can be operated before needing to be removed for maintenance. But we are not yet at the level we and our customers expect. This has put stress on the operations of the fleet. We continue to develop upgrades to the current GTF configuration to improve durability. We are also expanding our MRO capacity and working to reduce shop visit turnaround times to improve service availability. It will take some time to realize these benefits, but we are continuing to invest in time on wing improvements as we were able to do over the course of the V2500 program.

And of course, in parallel, we continue to execute on our GTF Advantage Development Program, our next-generation GTF configuration, that will incorporate all of our experiences and technical learnings since entering into service.

Okay. With that, let me turn it over to Neil to walk through our financial results.

Neil Mitchill

Thank you, Chris. I'm on Slide 5. As Greg noted, sales of $17.2 billion were up a strong 10% organically versus the prior year. This growth was driven by both commercial aerospace and defense, despite some of the environmental challenges we continue to face. Adjusted earnings per share of $1.22 was up 6% year-over-year, with strong segment operating profit growth of 15%, partially offset by the expected lower pension income and a higher effective tax rate.

On a GAAP basis, earnings per share from continuing operations was $0.97 per share and included $0.25 of acquisition accounting adjustments, restructuring and nonrecurring items. And finally, free cash flow was an outflow of $1.4 billion in the first quarter, which is historically our lightest quarter of the year due to the timing of incentive compensation payments and seasonality in our defense businesses.

In addition to these typical dynamics, the timing of sales and cash collections as well as supply chain and capacity constraints drove higher working capital in the first quarter of this year. We expect to generate positive free cash flow beginning in the second quarter as commercial deliveries accelerate and performance as well as other funding milestones are achieved.

And importantly, as Greg said, we remain confident in delivering about $4.8 billion in free cash flow for the full year. So with that, let's turn to Slide 6 and get into the segment results.

Beginning with Collins. Sales were $5.6 billion in the quarter, up 16% on an adjusted basis and up 17% on an organic basis, driven primarily by the continued recovery in commercial aerospace end markets, resulting in higher flight hours and higher OE production rates.

By channel, commercial aftermarket sales were up 24% on an adjusted basis and 26% organically, driven by a 43% increase in provisioning and a 29% increase in parts and repair, while modifications and upgrades were up 1% organically in the quarter. Sequentially, commercial aftermarket sales were up 8%. Commercial OE sales were up 12% versus the prior year, driven by production ramps in narrow-body, business jets and widebody. And military sales were up 9% due to both higher material receipts and manufacturing throughput. Adjusted operating profit of $800 million was up $216 million from the prior year, with drop-through on higher volume and favorable mix, partially offset by higher production costs and higher SG&A expense. Looking ahead, on a full year basis, we continue to expect Collins' sales to grow low double digits and operating profit of between $750 million and $825 million increase versus 2022.

Turning to Pratt & Whitney on Slide 7. Sales of $5.2 billion were up 15% on an adjusted basis and 16% on an organic basis, with sales growing across all segments. Commercial OE sales were up 27% in the quarter on higher engine deliveries within both Pratt's large commercial engine and Canada businesses. Commercial aftermarket sales were up 14% in the quarter, primarily driven by increased volume and favorable mix.

And in the military business, sales were up 13%, driven by the F135 production contract award in the second quarter of last year and higher F135 sustainment volume.

Adjusted operating profit of $434 million was up $126 million from the prior year, driven primarily by drop-through on higher commercial aftermarket, favorable contract matter and higher military sales, which was partially offset by conversion on higher commercial OE volume.

Turning to Pratt's full year outlook. We continue to expect sales to grow low to mid-teens and operating profit growth of $200 million to $275 million versus 2022.

Shifting to RI&S on Slide 8. Sales of $3.6 billion were in line with our expectations and flat versus prior year, both on an adjusted and organic basis. This was driven by lower command, control and communications programs, which was mostly offset by higher revenue from Cyber and Services programs.

Adjusted operating profit in the quarter of $330 million was down $48 million versus prior year, driven primarily by lower net program efficiencies spread across several programs. RIS began the year with strong orders in the quarter of $4.3 billion, resulting in a book-to-bill of 1.34 and a backlog of over $17 billion. This brings RIS' rolling four-quarter book-to-bill to 1.09.

In addition to the significant bookings Greg mentioned earlier, RIS also received a $650 million award for the next-generation jammer and a $275 million Space Development Agency award for missile tracking satellite constellation.

Looking ahead, we continue to expect RI&S' full year sales to be flat with operating profit growth of $75 million to $125 million versus 2022.

Turning now to Slide 9. RMD sales were $3.7 billion, up 4% on an adjusted basis and up 5% organically, primarily driven by higher sales in the Advanced Technology and Air Power programs. Adjusted operating profit of $335 million was down $52 million versus the prior year, driven by the lower -- by lower net program efficiencies and higher development program mix, partially offset by higher volume.

Lower net program efficiencies included the unfavorable impact of a significant option exercise in the quarter, which had about a 100 basis point impact on the margin. Like RI&S, RMD's bookings were also very strong to start the year with $5.2 billion of bookings in the quarter, including an over $600 million SPY-6 award. This resulted in a record backlog of $35 billion and a book-to-bill of 1.43 in both the quarter as well as on a rolling four-quarter basis.

And for the full year, we continue to expect RMD sales to grow low to mid-single digits with operating profit growth of between $175 million and $225 million versus 2022.

With that, I'll turn it back to Greg to wrap things up.

Gregory Hayes

Okay. Thank you, Neil. I'm on Slide 10 here. Just a couple of thoughts before we open it up for Q&A.

I think first and foremost, given the strength of our backlog and the continued end market demand, we, as a team, remain extremely confident we can deliver our '23 guidance and our 2025 commitments.

Our success, of course, begins with ensuring that we're meeting our customers' most critical needs. We're keeping a watchful eye on external factors. And I would tell you that Chris and the entire senior leadership team remain laser-focused on mitigating supply chain constraints and driving productivity and efficiency improvements across all of the businesses.

More importantly, we're continuing to invest in innovative solutions and differentiated technology that will continue to drive long-term growth.

Last thought is, earlier this month marked the third anniversary of the merger. We've been able to accomplish a lot so far even with this challenging environment, and we know there's a lot more progress we can make with the ongoing business realignment, which will set up RTX for success for decades to come.

We look forward to sharing more of this information on our transformational efforts and our long-range outlook during our Investor Day at the Paris Air Show on June 19.

With that, let me open up the call for Q&A. Latif?

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from the line of Myles Walton of Wolfe Research.

Myles Walton

Hey, Greg or maybe Chris, I don't know which. But on RMD, obviously, this has been one where you're sort of trying to get to the bottom of the issues. And it sounded like it was a contract option exercise. It was 100 basis points. But even with that, you obviously have an implied 12.5% margin for the rest of the year in the guidance. So I'm just curious, what's driving that? How profitable is the backlog growth you've now built up? I think that's one of the questions that everybody has. And I know after realignment, RMD won't exist, but it will still be part of the business, obviously.

Christopher Calio

Hey, Myles, this is Chris. Thanks for the question. Look, agree, we'd like to be seeing the margins improving at a bit of a faster rate. But there are some real positives in this business when you step back. Most of it will be the backlog.

If you think about the book-to-bill over the last 12 months, it's a 1.43, which is really phenomenal, with some key wins in some potential franchise areas. As Neil noted in his remarks, we did have a contract option exercise in the first quarter. It's a good business. Let's make no mistake about that. But because of the accounting resulted in a bit of a negative impact, about 100 basis points. If you exclude that, it would put RMD at a bit over 10%, sort of in line with where we were in Q4. As you sort of look ahead to the RMD margin profile, the two principal drivers of that margin improvement are going to be material flow and flow in our factory.

And of course, just absorption brought on by higher material receipts and of course, the labor that goes with it. So if you think about the factory flow, we had a 15% increase in Q4 in terms of material sheets. Another 5% here in Q1, and we're starting to see the results in the factory. You heard Greg talk prior about kit fill rates being in the 50s. The material flow that we've seen lately has brought the kit fill rate up into the low 70s. Our historical rate is in more the mid-80s. But as we continue to drive more material, you'll see more material flow in the factories, getting those kit fill rates up. And that's going to reduce the period of performance. And then again, the second one, again, is just math. With increasing material volume in labor, we're going to see better absorption of our fixed and indirect support costs. So more productivity there. So that's the margin sort of profile and story in RMD.

Myles Walton

Okay. And is it particularly back-end loaded to the year out of management in the second half?

Neil Mitchill

Myles, this is Neil. Yes, I expect that to accelerate as the year goes on. But I would point to the second half. As Chris said, with the kit fill rates in the 70s, as that grows into the 80s and then higher as the year progresses, you'll see the productivity, the confidence around our ability to shorten that period of performance improve. And that will show up in the EACs.

The other thing I'll say is that option we had, again, as Chris said, good business. There may be another one. But again, this is really good business coming on the heels of increased customer demand. So we'll be sure to continue to talk about that.

But I think the fundamentals of the backlog are strong. As we look at the margin embedded in that backlog, it's above 10%, and that gives us the confidence that, that margin expansion will come over time.

Operator

Our next question comes from the line of Noah Poponak of Goldman Sachs.

Noah Poponak

Can we just spend a little bit more time on the Pratt margin? And I guess, what's happening with pricing in the aftermarket, maybe specifically in the engine? Just sounds like out there in the industry, given limited parts supply, limited MRO availability that pricing is maybe much better than normal. So curious what you're seeing on that front, especially things that are not on some version of a long-term agreement? And what does that mean for the Pratt margin going forward?

Gregory Hayes

No, let me start. It's Greg. First of all, on the pricing side, with all of the inflation that we've seen over the last 18 months, I would say Pratt and Collins were both relatively aggressive last year in catalog price increases. And so I think we are seeing some of the benefits of that aftermarket part increase.

But keep in mind, on GTF, for instance, more than 75% of all of those customers are on long-term support agreements. So you really aren't seeing the benefit of pricing there. Similarly, on the OEM contracts, again, we have some benefit of pricing, but it is very limited based upon the indices.

Obviously, there's a dead band there. So we're not getting, I would say, a lot of pricing power today. It's not to say that we won't improve as time on wing, as Chris was talking about, improves, margins will improve, but pricing is not the driver of this. This is really demand-driven is what's driving top line here.

Neil Mitchill

Maybe I'll just add about the margin profile of Pratt. Obviously, as we look at the rest of the year, Noah, we expect the engine deliveries to increase. Think about between 35% and 40% year-over-year. You saw 42% in the first quarter. That will obviously come with some negative engine margin headwind. I would put a number around $250 million in terms of rest of year NEM headwind that would then, coupled with the strong aftermarket that we're expecting to continue at Pratt, you'll see that margin sort of level out as the year goes on and those engine deliveries increase.

Operator

Our next question comes from the line of Rob Stallard of Vertical Research.

Robert Stallard

Maybe just a follow-up actually on Noah's question with regard to Pratt. 14% aftermarket growth year-on-year in the quarter, given the aggressive price increase that Greg referred to, feels a bit low. And then secondly, on those GTF volumes, how do those compare versus Airbus' A320 ramp plan?

Neil Mitchill

Okay. So let me start on the aftermarket. 14% Pratt & Whitney consolidated level aftermarket growth on top of 37% a year ago. So when I think about that, it's still very strong growth. We have seen shop business increased low double digits here in the first quarter, and we expect that to continue as the rest of the year continues, Rob.

I would tell you that the legacy engines remain very strong, even the PW2000s and 4000s. On the V2500, the shop visits continue. They are paced by some of the structural casting issues that we've talked about. So I think as we've seen improvement there, and I'll let Chris talk about that in a minute, we do expect to see accelerated growth in terms of the Pratt & Whitney aftermarket on a full year basis. We still think Pratt's aftermarket will be up 20% to 25% year-over-year. So nothing concerning in the first quarter results, as you know, incredible demand as we look at the rest of the year for the flying fleets of the Pratt engines.

Christopher Calio

Hey, Rob, this is Chris. Maybe just a comment on the OE deliveries. Greg mentioned stabilization in the supply chain. I would say on structural castings, we continue to see some improvement, and that's obviously critical for Pratt.

If you think about the key constrained castings at Pratt, they are up about 30% sequentially this quarter. Now that's not to the level of flow that we need. We continue to see some manpower sort of labor challenges in that supply chain, and we're taking some actions to try to address that, whether it be offload, whether it be helping to improve yields in the manufacturing process.

But we are lockstep with Airbus on their demand for the year. And we are hand-to-mouth right now given some of the constraints. But again, lockstep with the demand, and that will continue to increase as we move into the back half of the year.

Neil Mitchill

Chris, maybe just to add on to that a little bit. The key constrained structural castings, that 30% is a sequential improvement in the number of castings that we've been able to get in the first quarter. So continue to have the challenges, but good sign as we gain momentum starting the year.

Operator

Our next question comes from the line of Matt Akers of Wells Fargo.

Matthew Akers

I wonder if you could touch a little bit more on working capital. I mean a little bit of a bigger impact than we've seen in Q1 prior year is kind of spread across contract assets receivable inventories, anything that kind of drove that this quarter?

Neil Mitchill

Sure. Thanks, Matt. Certainly, working capital was a drag on the quarter. I would say about -- we typically see a breakeven-ish type cash flow. We were expecting probably a slight outflow. It's obviously a little bit worse than that. About $500 million of that I would characterize as an inventory build. The silver lining here is that with the easing of the supply chain constraints, we've seen an incredible amount of inventory come in. We're also looking to balance that and make adjustments in our MRP as we look at the rest of the year, but about I'd call $500 million of the excess there associated with the inventory build, we increased our inventory $700 million.

So we plan to grow our inventory and sort of a good news situation, it grew a little bit further. I fully expect that to turn the other way as we go through the rest of the year. On the contract asset side, that really was in our defense businesses. Again, the seasonality of those businesses is that we invest in the products. We ship them, and then we make milestone collections as we meet performance milestones. I expect those performance milestones to be met as we go through the rest of the year.

So again, slightly higher than we had planned. We did get those billings out in early April, and they've already been collected. So I'm not concerned about that. Then the last piece we saw in terms of the first quarter was a slight increase in our receivables, probably about a couple of hundred million dollars. And frankly, that's due to the timing of sales. They came a little bit later in March. We'll collect that here in the second quarter.

So as we look at the rest of the year and I think about getting from the outflow of $1.4 billion, up to our objective of 4.8 or so, here's how I would characterize that walk. The majority of that is going to come from profit that we've yet to realize. So nearly $5.5 billion, $6 billion there. We expect working capital to be flat year-over-year. So we'll have an improvement of about $2.7 billion, about half of which will come from inventory.

We've got some puts and takes, a few hundred million dollars net of taxes and pension and then, of course, a little under $2 billion of capital, CapEx left to go in the year. And if you do all that math, you get to about the $4.8 billion.

If you look at the fourth quarter of last year, I think we generated about $2.2 billion of cash. So I do expect it to be back ended, but turning cash positive in the second quarter, pretty consistent with what we saw last year, which was in the $750 million range and that's after absorbing about $650 million of incremental cash taxes that we'll pay here in the second quarter because of the R&D impact.

So we feel confident in the full year. Obviously, a lot to do, but it's nice to have the inventory given the strength of the demand that we're all seeing here in the business.

Operator

Our next question comes from the line of Sheila Kahyaoglu of Jefferies.

Sheila Kahyaoglu

Neil, since you're so good with the numbers and you keep giving us detail, I wanted to ask another one on Pratt performance. What drove the strength in the quarter of 8.3% margins versus the 6% implied for '23? And sort of what drives the lower margins for the year? And how do we think about the aftermarket drop-through given some of the prior commentary on GTF aftermarket? And how do we think about the PwC and military mix as well?

Neil Mitchill

Four questions. Let me seat back and remember them all. Here we go. So in the first quarter, as I think about the 8.3% margin for Pratt, there are really two things that I would point to. Clearly, we had the drop-through from the aftermarket growth. So you have that. We also had a favorable contract matter settled. That was about $50 million or $60 million. So that won't repeat, but it was good news. And we also had -- we had year-over-year headwind in negative engine margin of about $50 million. But obviously, I expect as we go through the rest of the year, as I said earlier, about another $250 million of headwind as those engine volumes step up.

So I think that's the Pratt story. We clearly will see the continue to grow in the remainder of the year. We'll get good drop-through on that, and that should help to partially offset the negative engine margin headwind that will come with the higher engine deliveries.

The other piece of that in terms of thinking about the GTF and time on wing, basically, what I can say is our estimates today contemplate everything that we know about the engine. We feel very comfortable with where we are with our contract accounting. And any challenges in terms of cost or additional resources we need to put into that area are already contemplated in the outlook that we have for Pratt and for RTX as a whole.

So I don't see that as being a headwind against our expectations for the year. I feel like I missed one of those.

Sheila Kahyaoglu

It’s okay. I have too many. Thank you.

Operator

Our next question comes from the line Peter Arment of Baird.

Peter Arment

Question is for Greg or Chris, maybe just focusing on RMD and just $35 billion backlog. I mean you've had some big wins. Obviously, Switzerland was a big one. But maybe if you could just talk a little bit about obviously, customer engagement is very high or probably at its highest levels ever. Maybe you could just talk about kind of the backdrop, the ability to continue to grow backlog or some of the bigger booking opportunities that are still out there?

Gregory Hayes

Yes. Peter, let me start, and then I'll turn it over to Chris. But look, we had a very, very strong bookings quarter at RMD. Obviously, the Patriot, $1.2 billion for Switzerland. So that's a war we've been working on for a number of years. It's the 18th country to be a Patriot operator. But we see continuing demand that even is still not in the backlog. We know -- for instance, so far, we've only seen about $2 billion of awards related to Ukraine munitions replenishment.

We expect that we'll see more of that coming up later this year and into next year. We also know that as LTAMDS, which is the Patriot upgrade system, is certified later this year, that we'll start to see orders internationally for LTAMDS also start to pick up as well as the U.S. DoD.

Also, I think, you're going to see very strong bookings on SPY-6. SPY-6 is the new radar system for the Navy. We've had the initial low rate production contract on that, but again, much more to come on SPY-6, not just this year but into the future.

On top of that, of course, AMRAAM continues to be very, very solid. There's Tomahawk, which will eventually be replaced by the LRSO. The fact is the backlog at RMD is only going to grow, we think, over the next couple of years.

I think, again, one of the issues that RMD has, if you will, is you're going to see lower margins on some of these new development contracts, which is depressing the margin this year and next. That will start to turn around as we get into 2025, but it's going to take some time, but that is going to grow.

And the other piece of the puzzle we don't really talk a lot about is the other international customers. Right now, our international sales in RMD are only about 30%.

That's below historical levels. That should also improve as we get into LTAMDS, the next generation of AMRAAM delivery.

So lots of good news out there. And for us, it's just a question of getting it out the door at this point. As Chris mentioned, we still are constrained from a supply chain standpoint, although it's getting a hell of a lot better. We still have work to do, and we talked about structural castings at Pratt. For RMD, it's all about rocket motors. And that impacts TOW, that impacts Javelin, that impacts Stingers, that impacts SM-6, SM-3. So again, as we work through those supply chain issues on rocket motors that should also drive extraordinary growth in the top line over the next couple of years.

Operator

Our next question comes from the line of Ron Epstein of Bank of America.

Ronald Epstein

A question that's come up a lot among investors is when you think about the GTF and its variance and all the long-term contracts that have been sold with it -- correct me if I'm wrong, it was about 80% of those engines have been sold with the long-term contracts?

Gregory Hayes

Correct.

Ronald Epstein

And you're having this time on wing issues. Like you mentioned the Sheila, it's not an issue this year. But as we go out over time, how can we get confidence that those contracts were actually priced right, particularly the ones that were put in place earlier in the program?

Gregory Hayes

Ron, let me I'll turn it over to Chris. Obviously, Chris is intimately familiar with this having run the commercial engine business in Pratt. I would say the one bright spot is most of those contracts were eight to 10 years in length. If you think about it, they were -- this engine was introduced back in 2015. So as you think about the long-term outlook, I am very confident margins are going to improve because we'll have a chance to relook at some of those contracts. But obviously, there's a challenge today with margins because time on wing is not what we expected it to be.

Reliability and durability are the two issues. And reliability is great. 99.98% dispatch reliability. Time on wing is the challenge. But again, I think as Chris explained, we've got some solutions to that, which we'll see over the next couple of years.

Christopher Calio

Yes. And just to build on that, Ron, this is Chris. This is why that we are running as fast as we can to continue to insert upgrades into the fleet during shop visits. We've talked before about the sort of the block D upgrades, which are really aimed at combustor hot section, improving time on wing in those areas.

That's only about we're only about 50% of the way through the fleet in terms of those upgrades. And so again, we've had some part constraints and shortages and labor in our MRO network, which has which has impacted our ability to output MRO to the levels that we and our customers want, which is why we're adding more capacity to that MRO network.

You heard me talk about the new Japanese facility, delta, obviously, a top-tier provider joining the network helpful there as well. So adding capacity to networks where we continue to accelerate these upgrades and improve the time on wing.

At the end of the day, that's what it's all about. In addition to the contract mix that Greg talked about, it's also about accelerating our repair development, making sure that we've got a full suite of repairs in our MRO networks so that we're not always having to replace parts. We can repair parts at a better cost and improve turn times.

Ronald Epstein

And if I may, as a follow-on to this question, same thing. My understanding is the gear is just fine. It's the other stuff that's wearing out quicker. How did that happen? Because it was -- everybody was worried about the gear, not the other stuff.

Gregory Hayes

I think to your point, Ron, the gear has proved to be extremely reliable. We have not seen a gear failure out there in any of the 3,000 engines or so that we've delivered. But again, we're operating in some very harsh environments. And I would tell you that we probably didn't spend enough time testing for those harsh environments, specifically places like India.

And that's where we've seen the lower life on the combustor. We've seen some lower life the turbine blades just because of the harsh conditions there. So as we move forward to Chris' point, we have the advantage coming online. It's got a lot more testing. It's got all the learnings from the existing fleet. This should be significantly more durable out there in terms of time on wing. It's going to take us a couple of years before we can get all of those upgrades introduced.

Neil Mitchill

To your point, Greg, and Ron, you're 100% right, the gear and the fuel burn performance have been spot on in meeting expectations. Keep in mind, this was a new architecture, and we've had some learnings along the way.

The only thing I'll remind you, I kind of mentioned this in my remarks, we had a similar journey on the V2500. And it took us a while to get to the levels today that people are enjoying on the V2500. Big difference, of course, has been the ramp up on the GTF has been massive ramp versus when the V went into service.

So there's a little bit more, I would say, time and buffer to help manage that fleet as it was entering into service. But the playbook is there on the V. We've got to follow it on the GTF.

Operator

Our next question comes from the line of David Strauss of Barclays.

David Strauss

Greg, specifically on the MAX, I think you previously commented that the expectation around Collins and the OE growth rate there was for the MAX to be in the low 30s for you all for the full year. Is that still what you're thinking even with the new issues that have developed here?

And then second part of the question, just on rocket motors. Your view of the potential Aerojet acquisition by LHX and how that potentially could improve things in terms of rocket motor availability?

Gregory Hayes

Yes. In terms of 737 MAX, I think current production rate is about 31 a month. Boeing had talked about moving that up to 37 a month by the end of the year. I would tell you, Collins is right now, I think we're all set at the 31 a month. And it might get a little bit better during the course of the year. But I think, again, that wouldn't be an issue in terms of our ability to ramp production to meet that.

But right now, again, I think Boeing has got some challenges. We'll hear what they have to say here in another day or so. But we're, I would say, in constant contact with both

Boeing and Airbus on OEM rates both at Pratt and at Collins. So no surprises there to think of or to talk about.

As far as rocket motors, obviously, the potential acquisition by L3Harris of Rocketdyne is something that we have been discussing. The -- there's always a concern, I think, when you have one of your key suppliers going through a merger or an acquisition is that they lose focus on delivering and quality. And we are, again, laser focused.

We've got folks out at Aerojet Rocketdyne every single day. We'll see what happens. I know there's a second request right now with L3Harris as it relates to their potential acquisition. And we have been obviously in contact with everyone as it relates to that.

So we'll have to see what happens. But I would tell you, in the current antitrust environment, no deal is certain until it is actually done. So we'll have to see how this plays out and make sure that, again, the Aerojet Rocketdyne continues to focus on delivery and not get distracted by this deal.

Operator

Our next question comes from the line of Rob Spingarn of Melius Research.

Robert Spingarn

Neil, just going back to Collins. And I think in 2019, about 40%, 45% of the aftermarket there was from widebodies. I wanted to see if you could update us on where that is now? And how it's trending relative to narrow bodies, maybe this year and next?

Neil Mitchill

Thanks for the question, Rob. I think what I would say about the growth at Collins right now is the majority of it is still coming from the narrow-body. We have started to see wide-body begin to improve. I don't have the exact number in front of me on that mix today.

But as we think about the wide-body environment, those volumes are coming up. I would say, particularly seeing that in the interiors business on the OE side, as they continue to take those production levels up.

And as you said, today, I think Collins is more in the -- on the OE side, probably about 30% of their OE sales relate to widebody, with about 40% from narrowbody. And then on the aftermarket side -- I'm sorry -- let me just stop there. I think that's enough for those numbers right now.

Robert Spingarn

Okay. If I could just ask for a follow -- just a follow-up to Ron's question on the GTF losses, on the -- on engine delivery. And I think you mentioned recently somewhere that that's about $1 million per engine. Yes. How much of that is learning curve versus need for new productivity versus volume? In other words, which of those three things will improve the most?

Neil Mitchill

Volume. Clearly, volume, as we continue to ramp back up to levels that we saw pre-pandemic, are going to be the tailwind, if you will, on a per engine reduction in negative engine margin. As you'll recall, we were already producing in the high 50s rate as we kind of entered into 2020.

And when you think about the headwind we saw here in the first quarter on 40% higher volume, we're getting good absorption as we continue to take up those engine volumes. I expect that to continue.

We're always working productivity. We're working productivity to offset the growing costs that we're seeing, particularly on the casting side. So we're doing all of those things. But I would say what's going to drop to the bottom line is going to be driven by that higher volume and the absorption that comes from that.

Operator

Our next question comes from the line of Ken Herbert of RBC.

Kenneth Herbert

I wanted to stay on Collins' aerospace for a minute. The first quarter aftermarket numbers were continuing to be pretty strong. You're seeing better pricing. Is it fair to assume that there's upside to sort of the full year aftermarket expectations within Collins? Or how do we see the sort of the remainder of the year progressing with tough comps, but with still very strong fundamentals in demand?

Neil Mitchill

Thanks for that question, Ken. Clearly, the first quarter was a good strong start. Collins has lot of operating profit growth in our year-over-year plan between 750 and 825 and certainly seeing a little over $200 million of that happen in the first quarter was encouraging.

And I think when you look at the provisioning numbers that we saw from Collins, very strong, obviously. I think a lot of that was driven by these airlines getting ready to put their fleets up in the air and be prepared to continue to fly through the summer travel season.

It's certainly a watch item today, I would say. Our aftermarket outlook for Collins is in the low teens plus range. So certainly, a positive indicator, but it's one quarter into the year. It's a little early to kind of take those numbers up. But certainly, if they continue at this level, there will be goodness. And we'll see that goodness drop to the bottom line.

But certainly, a great start driven by all the right things. The China reopening certainly gave a boost in the first quarter for Collins. And as we see OE deliveries continue to at least stabilize and grow as the year goes on. And I think that too will add some tailwind there. But a little early to kind of give a bigger number at this point.

Operator

Our next question comes from the line of Cai von Rumohr of Cowen.

Cai von Rumohr

So two issues at Pratt. First, you mentioned NEM was 50 million in the first quarter. Deliveries were up 48, so that's a little more than 1 million a unit. And yet if we look at the back part of the year, it should be another 50 to 70, something like that. And so why does NEM go up to 250? That seems an acceleration in the level per unit.

And secondly, your aftermarket in the first quarter, up 14%. If I take out price, you're probably flat to up 1%. And I recognize it's a tough year-over-year compare. Why was it so low? And is part of that the casting shortage and having to allocate parts to OE?

Neil Mitchill

So let me take the first one. I think we can take it offline, Cai, and Jennifer can help you a little bit.

But I think as we look at the volume uptick as we go through the rest of the year, you'll find that when you combine that with the mix of new and spare engines that our negative engine margin is stable, if not reducing a little bit. So I feel good about that. There's a number of different engine families that make that up.

So we don't see any issues there in terms of cost headwinds or degradation on a per engine basis as the rest of the year goes. As you think about the aftermarket, a couple of thoughts there. I had mentioned that we were addressing and dealing with material flow and availability. Certainly, the castings are playing a part in that in terms of allocations amongst MRO and OE deliveries.

But we did see price improvements in the Pratt & Whitney portfolio as we do every year, and the volume is also dropping through. The content on the shop business is also stepping up across almost all segments of Pratt & Whitney, large and the small engine business as well.

So we're seeing the right momentum there. And I do expect that as we continue to see the casting improvements alleviate as the year goes on, you'll see that also drop through in the top and bottom line.

Gregory Hayes

Yes. I mean, Cai, the key for Pratt in terms of the aftermarket really goes back to V2500. And we see very strong input. I think shop visits were up more than 10% here in the quarter. So the pricing is a part of it, to Neil's point, but really, it is the volume coming back into the shops as these engines are flying more.

Operator

At this time, I'd like to turn the call over to Greg Hayes for any closing remarks. Sir?

Gregory Hayes

Well, thank you, everyone, for listening in today. As always, Jennifer and her team will be around to answer all of your questions over the next couple of days. Thanks again for listening and take care. We'll see you. Bye.

Operator