RTX (RTX) Q4 2024 Earnings Call Transcript

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RTX earnings call for the period ending December 31, 2024.

RTX (RTX 6.66%)

Q4 2024 Earnings Call

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Prepared Remarks:

Operator

Good day, ladies and gentlemen, and welcome to the RTX fourth-quarter 2024 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 Chris Calio, president and chief executive officer; Neil Mitchill, chief financial officer; and Nathan Ware, vice president of investor relations.

This call is being webcast live on the Internet, and there is a presentation available for download from RTX 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. RTX's 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.

[Operator instructions] With that, I will turn the call over to Mr. Calio.

Christopher T. Calio -- *President and Chief Executive Officer*

Thank you, and good morning, everyone. As you saw in our press release, our fourth-quarter adjusted sales, EPS, and free cash flow capped off a year of very strong performance for RTX. In 2024, we delivered $80.8 billion in adjusted sales, up 11% organically, driven by 14% growth in commercial OE, 13% growth in commercial aftermarket, and 9% organic growth in defense sales. Adjusted EPS was up 13% year over year to $5.73.

We delivered 90 basis points of consolidated segment margin expansion with contributions from all 3 business segments, and $4.5 billion in free cash flow. Customer demand for our technologies and solutions remains robust, and we ended the year with a backlog of $218 billion, up 11% year over year, including $125 billion of commercial backlog and a record $93 billion of defense backlog. On the defense side, Raytheon's backlog continues its favorable mix shift and is now 44% international, up 8 points year over year. We'll walk through the fourth-quarter details in a few minutes, but I know everyone is interested in 2025.

So let me first share a few comments on that front. A favorable demand environment and the strength of our advanced products across commercial aerospace and defense position us for sustained growth in 2025 and beyond. On the commercial side, passenger air travel remains robust, and IATA estimates that global RPKs will grow approximately 8% this year. Commercial airframer backlogs also remain at record levels.

We have significant content on the fastest-growing platforms. On the defense side of the business, there continues to be tremendous need for our products such as Patriot, NASAMS, F135, GEM-T, F-117, and Coyote, all critical equipment being used around the world. We also expect continued strength in international demand for many of these products with key partners and allies in NATO, in the Indo-Pacific committed to increasing defense spending. And as everyone knows, it's pretty dynamic right now on the macroeconomic front, but RTX is positioned to perform in any environment.

Over the last several years, we've continued to qualify new and second sources in our supply chain, and we've made substantial investments in capacity expansion and modernization of our infrastructure in the United States. And we have strong partnerships around the world that support production and deliver services within the markets that we serve. All of these factors support another year of positive momentum for RTX and we expect full-year 2025 adjusted sales to be between $83 billion and $84 billion, which translates to organic growth of between 4% and 6% year over year. For segment profit, we expect 10% to 13% growth resulting in continued segment margin expansion, with all three businesses again contributing to the year-over-year growth.

From an EPS perspective, we expect adjusted EPS of between $6 and $6.15, up 5% to 7% year over year. And for free cash flow, we expect between $7 billion and $7.5 billion for the year. This growth supports capital returns to our shareowners with over $33 billion returned already since the merger, including $3.7 billion in 2024. Today, we have clear line of sight to deliver toward the high end of our $36 billion to $37 billion capital return commitment by the end of this year, and we are committed to continuing our strong capital deployment strategy as we move forward.

Our performance will continue to be underpinned by the strategic priorities we've been discussing in the last few quarters: executing on our commitments, innovating for future growth, and leveraging our breadth and scale. Let's move to Slide 4, and I'll provide an update on each of these priorities. First, executing on our commitments.

On the GTF fleet management plan, our outlook remains consistent with our prior comments.

As we've discussed, we expect to gradually reduce PW1100 AOGs throughout this year, driven by continued improvement in engine throughput and our MRO facilities. Last year, MRO output was up 30% with a significant increase in forging production, and this year we expect MRO output to grow above 30%. More broadly, we continue to leverage our core operating system, Industry 4.0 improvements and focused capacity enhancements to drive productivity across the company. Last year, enabled by core, we continue to improve productivity across the company, growing sales 11% organically with less than a 2% increase in head count across RTX.

And this year, we expect to complete a record number of core projects to drive operational performance and continued segment margin expansion, with an emphasis on improving on-time delivery, reducing inventory, and reducing the cost of scrap, rework, and repair. Additionally, we completed our goal of connecting 40 of our top factories to our proprietary data analytics platform. We continue to harness this value to drive companywide productivity improvements through equipment efficiency, better quality, and enhanced product flow visibility. For example, last year, we saw a 50% improvement in on-time delivery for Raytheon circuit card assembly production line.

We also saw a 50% increase in equipment utilization in pilot cells at Pratt's module center for the F135. This year, we plan to double the number of product families leveraging this digital infrastructure, which will allow us to expand our use of data and AI in our aftermarket operations and product development. Next, let's talk innovating for future growth. In 2024, we spent over $7.5 billion in company and customer-funded research and development to advance technologies that address the immediate and emerging needs of our customers.

Through our ability to rapidly bring new technology to production and meet rigorous customer requirements, we are uniquely positioned to deliver capabilities at scale. For example, Raytheon's upgraded Coyote Effector recently demonstrated enhanced capabilities against complex drone targets. Designed, produced, and fielded in less than 18 months these enhancements showcase our ability to rapidly integrate software and hardware technology into products. And as you may have seen, the Army highlighted the effectiveness of this upgrade with over 170 threats intercepted in recent conflicts.

We're leveraging the same rapid development cycle across the company, including on multiple classified programs to meet our customers' urgent need to field improved capabilities. And we continue to make good progress on the GTF advantage at Pratt with the completion of all engine testing requirements, including a test schedule with more than double the endurance testing of the original program. We're pleased with the results and are on track for engine certification in the first half of this year with deliveries to follow in the second half. This type of innovation will continue in 2025 as we plan to spend over $7.5 billion again on company and customer-funded R&D to both field new products and develop advanced capabilities that are critical for the next generation of commercial and defense platforms such as fuel efficiency, resilient networks, directed energy, autonomy, AI and advanced materials.

We're also innovating how we do our work as we continue to implement AI applications across RTX. Last year, we saw benefits in areas including product testing, first article inspections, and RFP responses. For example, using generative AI, Collins' avionics business has seen software testing cycle times improve by three times while maintaining our same quality standards. We have a plan this year to deploy another 40 use cases.

Through our continued initiatives to leverage machine learning and generative technologies, we expect to improve operational speed, cycle times, and capital utilization while decreasing our dependency on external labor. And lastly, leveraging the breadth and scale of RTX. As part of our broader infrastructure plan to maximize utilization of RTX facilities, Collins is building out 125,000 square feet of production space in Raytheon's Richardson, Texas facility to support new wins, including the multibillion-dollar award last year for the Survivable Airborne Operations Center program. Through leveraging an existing RTX facility, we've been able to reduce the investment for this capacity expansion by 50%.

And as we continue to evaluate our footprint, we've launched a significant number of projects across the company to lean out our manufacturing floor space and increase utilization, all with the goal of reducing our fixed costs and creating additional capacity. Bringing this all together, we feel very good about the momentum we've created heading into 2025 and where our business is positioned. With that, I'll turn it over to Neil and Nathan to take you through more details on the fourth quarter and our 2025 outlook. Neil?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Thanks, Chris. I'm on Slide 5. As Chris said, we had strong financial performance to finish the year. In the fourth quarter, adjusted sales of $21.6 billion were up 9% and up 11% organically, ahead of our prior expectations, primarily driven by commercial OE at Pratt.

By sales channel, growth was led by commercial aftermarket, which was up 15%, and Defense, which was up 10% organically. Commercial OE sales grew 10% as higher deliveries at Pratt more than offset the lower narrow-body volume we expected at Collins. Segment operating profit of $2.7 billion was up 29%, with segment operating margin expansion of 180 basis points versus the prior year. Adjusted earnings per share of $1.54 was up 19% from the prior year, driven by segment operating profit growth, which was partially offset by expected higher taxes and lower pension income.

On a GAAP basis, EPS from continuing operations was $1.10 and included $0.30 of acquisition accounting adjustments, $0.05 of restructuring, and $0.09 of other nonrecurring items. Free cash flow for the quarter was $492 million, bringing the full-year total to $4.5 billion, which included approximately $1.1 billion of powder metal compensation and slightly higher year-end disbursements, including capital expenditures. In total, the full year included approximately $2.6 billion of impacts from powder metal, legal matters, and the Raytheon contract matter that we've previously discussed. Also in the fourth quarter, we completed the sale of the Collins Hoist & Winch business as we continue to prioritize investments in our core.

Lastly, we returned $852 million of capital to shareowners, primarily through dividends, and we paid down $800 million of debt in the quarter, bringing our total debt paydown for 2024 to $2.5 billion. With that, I'll hand it over to Nathan to take you through the segment results, and then I'll come back and share some additional details on our 2025 outlook.

Nathan Ware -- *Vice President, Investor Relations*

Thanks, Neil. Starting with Collins on Slide 6. Sales were $7.5 billion in the quarter, up 8% on both an adjusted and organic basis, driven by strength in defense and commercial aftermarket. By channel, defense sales were up 13%, primarily due to higher volume across multiple programs and platforms.

Commercial aftermarket sales were up 12%, driven by a 21% increase in provisioning, an 18% increase in mods and upgrades, and a 9% increase in parts and repair. And as expected, commercial OE sales for the quarter were down 6% versus the prior year, driven primarily by lower narrow-body volume on the 737 MAX. Adjusted operating profit of $1.2 billion was up $172 million versus the prior year. Drop-through on higher commercial aftermarket and defense volume was partially offset by lower commercial OE volume and unfavorable commercial OE mix.

For the full year, Collins generated $28.3 billion of adjusted sales and $4.5 billion of adjusted operating profit, resulting in 100 basis points of year-over-year margin expansion. Shifting to Pratt & Whitney on Slide 7. Sales of $7.6 billion were up 18% on both an adjusted and organic basis, with sales growth across all three channels. Commercial OE sales were up 31% in the quarter, primarily driven by increased deliveries and favorable mix in Large Commercial Engines.

Commercial aftermarket sales were up 17% in the quarter, driven by higher volume in Large Commercial Engines, primarily GTF and Pratt Canada. In military engines, sales were up 8%, driven by higher volume across F135 production, the F135 Engine

Core Upgrade program, and F135 sustainment. This was partially offset by lower sustainment volume across other legacy platforms, primarily the F100 and F117. Adjusted operating profit of $717 million was up $312 million versus the prior year, driven by favorable OE volume and mix in Large Commercial Engines, favorable mix in Pratt Canada aftermarket, and drop-through on higher commercial aftermarket and military volume.

Pratt also benefited from an approximately $70 million insurance recovery in the quarter. Also in the quarter, Pratt booked $8.9 billion of awards, including $1.4 billion for F135 sustainment. For the full year, Pratt & Whitney generated $28.1 billion of adjusted sales and $2.3 billion of adjusted operating profit, resulting in 100 basis points of year-over-year margin expansion. In addition, GTF engine shipments in 2024 were up 14% on a year-over-year basis.

Now turning to Raytheon on Slide 8. Sales of $7.2 billion in the quarter were up 4% on an adjusted basis and 10% organically. The sales growth was driven by higher volume on land and air defense systems, including Global Patriot, NASAMS, and counter-UAS programs as well as 5 points from higher volume associated with the restart of contracts with the Middle East customer. This growth was partially offset by the impact from a cybersecurity divestiture and lower volume on air and space defense systems.

Adjusted operating profit of $728 million was up $110 million versus the prior year, driven primarily by drop-through on higher volume, improved net productivity, and favorable mix, partially offset by the impact from the cybersecurity divestiture. year over year, net productivity improved by approximately $50 million in the quarter. Bookings in the quarter were $9.5 billion, resulting in a backlog of $63 billion and a full-year book-to-bill of $1.48 billion. Key awards included $848 million to supply Romania with additional Patriot systems, highlighting the continued demand for air and missile defense solutions.

Raytheon also booked $1.9 billion of classified awards $763 million for Stinger Air Defense Missiles and $591 million for the Next-Generation Jammer airborne electronic warfare system. For the full year, Raytheon generated $26.8 billion of adjusted sales and $2.7 billion of adjusted operating profit, resulting in 100 basis points of year-over-year margin expansion. Net productivity at the business was up approximately $160 million on a year-over-year basis in 2024. With that, I'll turn it back over to Neil to provide some more color on our 2025 outlook.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Thanks, Nathan. Turning to Slide 9. Let me talk through the drivers of our 2025 outlook that Chris highlighted. Starting with sales, supported by the demand environment we've discussed we expect total RTX sales to be between $83 billion and $84 billion for the year.

Within this outlook, we've assumed that Collins actuation divestiture is completed by the end of the second quarter. Therefore, on an organic basis, this translates to between 4% and 6% top-line growth. Looking at it by channel at the RTX level and adjusting for divestitures, we expect approximately 10% commercial aftermarket growth. On the commercial OE side, sales are expected to be up mid-single digits year over year as we align with our customers on delivery requirements, which we see ramping throughout the year.

And defense sales are also expected to grow mid-single digits across the company. With respect to EPS, let me take you through the year-over-year walk. Starting at the segment level at the midpoint of our outlook range. Operating profit growth of 12% is expected to drive approximately $0.66 of EPS growth.

Included in this segment growth is a headwind of roughly $0.07 associated with the divestitures we completed last year and the expected actuation divestiture this year. And due to the progress we've made on paying down debt from the accelerated share repurchases completed in 2024, we expect a tailwind from lower interest of about $0.05. Partially offsetting these items is approximately $0.15 from lower FAS/CAS and nonservice pension income, driven primarily by the actions we've taken to improve the funded status of our plans, as well as $0.06 from a higher share count. And finally, we also expect a $0.16 headwind from other items, which is primarily comprised of $0.06 of higher corporate expenses as we invest in our digital systems and capabilities and $0.05 of higher taxes.

All of this brings us to our adjusted EPS outlook range of $6 to $6.15 per share. Moving to our cash walk. The first piece of our year-over-year growth comes from segment operating profit and working capital. Combined, this will drive an operational improvement of approximately $2.3 billion.

Specific to working capital, we expect a year-over-year improvement of approximately $1.3 billion, with the majority coming from inventory and contract assets as we deliver commercial OE product, achieve defense delivery milestones, and improve our supplier inputs and material throughput. This also includes capex where we expect to invest between $2.5 billion and $2.7 billion during the year as we continue to expand capacity and accelerate automation efforts to support our long-term organic growth. Next, the onetime legal and contract matters that we paid last year will not repeat in 2025, resulting in a tailwind of approximately $1.5 billion. We also see a headwind of approximately $900 million, primarily driven by the absence of an R&D tax-related benefit in the prior year and higher cash taxes in 2025.

Finally, we expect powder metal compensation impacts to be between $1.1 billion and $1.3 billion, which is up around $100 million year over year at the midpoint. All in, we expect free cash flow to be between $7 billion to $7.5 billion in 2025. With that, let's turn to Slide 10, and I'll provide some details for the segment outlooks. Starting with Collins.

We expect full-year sales to be up low single digits on an adjusted basis and up mid-single digits organically. As I already noted, this outlook assumes the completion of the sale of the actuation business around midyear. Adjusting for this divestiture, we anticipate commercial aftermarket to be up high single digits to low double digits driven by growth in passenger air travel and mods and upgrades volume. Commercial OE sales are expected to be up mid-single digits as increased volume on multiple platforms is partially offset by impacts from the expected timing of our customers' production ramps.

And defense is expected to be up low single digits on top of the 9% growth we saw in 2024. With respect to Collins' adjusted operating profit, we expect it to grow between $500 million and $600 million versus the prior year, driven by drop-through on higher volume across all three channels as well as higher pricing and continued progress on cost reduction efforts across the business. Finally, this includes an approximately $80 million headwind associated with the actuation divestiture. Shifting to Pratt & Whitney.

We expect full-year sales to be up high single digits on both an adjusted and organic basis. By channel, we expect commercial aftermarket to be up low double digits due to higher volume across Large Commercial Engines and Pratt Canada. Commercial OE is expected to be up mid-single digits with another year similar large commercial engine unit delivery growth, partially offset by mixed headwinds. And military sales are expected to be up mid-single digits, driven by sustainment activity across the F135 and F100 platforms and the F135 Engine Core Upgrade program.

For Pratt's adjusted operating profit, we expect growth of between $325 million and $400 million versus the prior year, driven primarily by drop-through on commercial aftermarket and military growth. This will be partially offset by increased commercial OE deliveries and mix within that channel. And at Raytheon, we expect sales to grow mid-single digits organically as double-digit growth in land and air defense systems is partially offset by lower development volume. Raytheon's adjusted operating profit is expected to be up between $150 million and $225 million versus the prior year, driven by drop-through on higher volume, favorable contract mix, and improved net productivity.

Also, keep in mind, there is an approximately $35 million headwind associated with the sale of the cybersecurity business in the first quarter of last year. In addition, we've included an outlook for some of the below-the-line items in the appendix of our webcast. All in, 2025 is expected to be another strong year of performance for RTX. A lot has changed since we issued the original 2025 target several years ago.

And while there have been some updates, the fundamental value drivers of the company and cash generation potential have not changed. OK. With that, I'll turn it back over to Chris.

Christopher T. Calio -- *President and Chief Executive Officer*

OK. Thanks, Neil. I'm on Slide 11. As I said upfront, I'm pleased with how we ended 2024 and the momentum we have heading into 2025.

The growth we've achieved over the last few years has been remarkable, and we continue to make the right investments to advance our market-leading technologies and capabilities well into the future. Looking ahead, we are a focused, technology-driven aerospace and defense company that is aligned with strong macroeconomic growth drivers and well-positioned on the right industry growth platforms. Combined with technology synergies across our products and a strong balance sheet that enables us to innovate at scale, I'm confident we can drive sustainable growth in sales, margin and cash flow generation, resulting in significant long-term returns to shareowners. OK.

With that, let's open it up for questions.

Questions & Answers:

Operator

[Operator instructions] Our first question comes from the line of Myles Walton of Wolfe Research. Your question please, Myles.

Myles Walton -- *Analyst*

Thanks. Good morning. Maybe, Chris, on powder metal and the GTF, there wasn't a lot of discussion. So I'm taking that as good news that you're still on track, still on plan.

And maybe just to put a point to it, it looks like your cash expectation for spend in '25 is the same. Are we still on track for the $800 million to $1 billion step-down in 2026?

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. Thanks, Myles. Good morning. Let me go through the main components here.

As I said upfront, the outlook remains consistent and the underlying technical and inspection assumptions all remain intact. So good news. AOGs have been stable. And now look, I said this before, MRO output is the key enabler.

We saw some very good progress last year. PW1100 output was up 30% last year. So very good progress in terms of material flow and in-shop performance. But we need to continue to ramp output to bend the curve here as we work our way through 2025.

And we talked about a plan here of above 30% growth in 2025, and that's going to be critical. Now the supply chain is going to be instrumental in helping us get there. And we've continued to see improvement there. Structural castings were up 12% year over year.

isothermal forgings output was up significantly. And of course, that's important as we incorporate full-life powder metal parts into MRO. As you know, it's already going into new engine deliveries. So again, there are a lot of puts and takes, as you might imagine, as we're going through this process.

And our 100% focus, again, is on bending the AOG curve, to make sure that we get the assets back into our customers' hands as quickly as possible.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

And Myles, on the cash side, I think if you think back over the last couple of years, we started out with a placeholder of $0.5 billion. We were able to defer that. Last year, in '24, we ended at about $1.1 billion, so a little ahead of where we had estimated. And as you can see from today's comments, we see between $1.1 billion and $1.3 billion for '25.

We're going to continue to work with our customers to manage the timing of those cash flows. Right now, I'd say we have the residual amount parked in 2026. Could that go out a little bit further? Perhaps. We want to make sure we manage the cash carefully on this program.

We're happy with where we are with the customer agreements that we have in place right now with the vast majority of the AOGs are under a customer support agreement already. So we feel good about the profile that we've laid out so far.

Myles Walton -- *Analyst*

All right. Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

You're welcome.

Operator

Thank you. Our next question comes from the line of Peter Arment of Baird. Your line is open, Peter.

Peter Arment -- *Analyst*

Yeah. Good morning, Chris, Neil, Nathan. Nice results.

Christopher T. Calio -- *President and Chief Executive Officer*

Morning.

Peter Arment -- *Analyst*

Hey, Chris. On the -- so new administration, new spending priorities. How are you thinking with how Raytheon is aligned in terms of any replenishing stockpiles and how you see kind of that playing out for you? You've got a huge international mix. I think you're 44%, just how you see kind of the uplift that's coming from the international side along with opportunities you're seeing on the replenishment side with the new administration? Thanks.

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. Thanks, Peter. Good question. Well, and you sort of led with it up front, right, the demand for our products continues to be really strong, right? Raytheon, a $63 billion backlog.

1.48 book-to-bill. As I said in my comments upfront, you've got 30-plus systems in operation in conflicts today defending the U.S. and our allies very, very effectively. In the U.S., it's about replenishment, as you referenced.

As you move across the world, Europe, this is about integrated air and missile defense, continuing to replenish effectors, GEM-T, AMRAM, and the like. And as you move to Asia Pac, it's more on naval munitions, the standard family, SM-3, SM-6, continuing to ramp up there. So overall, again, we continue to see international demand to be very strong. The NATO countries are continuing either to commit or actually spend above the 2% target, you think of what you're seeing in Poland, it's coming up on almost 5%.

Again, international demand continues to be strong. We've seen that in our backlog, and that will be a tailwind for us.

Peter Arment -- *Analyst*

Appreciate the color. Thanks.

Operator

Thank you. Our next question comes from the line of Ron Epstein of Bank of America. Please go ahead, Ron.

Ronald Epstein -- *Analyst*

Hey. Good morning, guys.

Christopher T. Calio -- *President and Chief Executive Officer*

Good morning.

Ronald Epstein -- *Analyst*

Yeah. Yesterday, the Air Force bumped up their contract for NGAP to about $3.5 billion, a big number. Where do you guys stand on the program? Where are we? How do we think about it? Kind of what's going on with that next-generation engine?

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. I'll take that one, Ron. It's Chris. So look, regardless of where NGAD is and the timing, and there's been a lot in the public out there, we've continued to develop our NGAP solution.

We've gone through rigorous testing over the last few years. We've been really pleased with the results there. I can't get into too many of the details, as you might imagine. But this is something where we've had a lot of resources on it and have been very pleased with the testing that we have seen.

And this funding will help us continue in that area, continuing to drive down any risks on the key requirements that are there. So very pleased with that award. And again, we think we're going to have a very competitive offering.

Ronald Epstein -- *Analyst*

And how much of a tailwind is that for Pratt this year? Or I mean, how do we think about that just kind of on the financial side?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Well, I'd say between the Engine Core Upgrade on the F135 program and this work that we're doing, we've got Pratt in at mid-single-digit growth for the military side of their business. Clearly, a tailwind here, Ron. I see this continuing to grow. As you know, more broadly speaking, a lot of the older aircraft continue to fly.

The aftermarket remains strong. So I'd say, by and large, this is a tailwind for Pratt, and happy to see this funding being put in place over the next number of years to continue this development.

Ronald Epstein -- *Analyst*

Great. Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

You're welcome.

Operator

Thank you. Our next question comes from the line of Scott Deuschle of Deutsche Bank. Your line is open, Scott.

Scott Deuschle -- *Analyst*

Hey. Good morning.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Good morning, Scott.

Scott Deuschle -- *Analyst*

Neil, are there any components of the free cash flow outlook in 2025 that you would call out as potentially normalizing or reversing in 2026 apart from, of course, the powder metal costs? And I'm mainly just trying to get a sense of whether this broader working capital improvement to remain a persistent tailwind beyond 2025. Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Sure. I appreciate the question. I know there's been a lot of focus on our cash flow, and we're focused on that entirely here within the company as well. And so as we look at the outlook that we just put out for '25, think about $7.2 billion at the midpoint and about $1.2 billion of powder metal.

So you just do the math there, operationally, about $8.4 billion. Now there's a $1.3 billion working capital tailwind baked into that year-over-year improvement. But as you can see from the level of inventory we have and the level of contract assets, we think we've got additional runway to continue to improve working capital turns as we move beyond 2025. So we have a lot of work to do here in 2025 already, but we're very confident.

We've been focused on this for a couple of years. Didn't get there last year, but I think we're well-stocked to support the ramps of our customers in that regard. The only other nonrecurring item, if you will, that I think about in '25, we've got a couple of hundred million dollars set aside for an international tax payment that we'll be making here in the first quarter following a court finding that came out early this year. And there's always a couple of puts and takes.

But by and large, I'd say that $8.5 billion range is fairly strong operational baseline.

Scott Deuschle -- *Analyst*

Great. And Chris, just to clarify, has Boeing restarted issuing purchase orders for 737 MAX avionics equipment yet?

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah, Scott. We're back with Boeing working the ramp, as you might imagine. Frankly, we were working at even throughout the strike making sure that we were ready to go when they ramp back up. Continue to engage closely with them on that.

Scott Deuschle -- *Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Rob Stallard of Vertical Research. Your question please, Rob.

Robert Stallard -- *Analyst*

Thanks very much. Good morning.

Christopher T. Calio -- *President and Chief Executive Officer*

Good morning, Rob.

Robert Stallard -- *Analyst*

It's probably a question for Neil. On the 2025 aerospace OEM guidance, it looks pretty conservative compared to what Airbus and Boeing are currently saying. So wondering if you built some contingency into your forecast or if there's anything going on with inventory, for example, that's impacting that guidance? Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Sure. Yeah. Let me make a couple of comments. Rob, let me start with the Collins side, understand the question with production rates anticipated to be going up considerably, there's obviously a little bit of inventory in the channel here, and we've taken a prudent approach, I think, at this time of the year to contemplate that in the Collins outlook.

It's not across the board. I think it's targeted to specific systems within the narrow-body value stream. But as we look through the year, we expect the ramp to continue to go up, and as you can tell from the inventory levels that we have at Collins, feel well-positioned to meet a rising rate ramp should we see a faster growth as the year unfolds. On the Pratt side, maybe just a couple of comments for additional color there as well.

Large Commercial Engines, we were up 14% in unit deliveries last year. I expect a similar level of unit growth as we look to 2025. And then as you look at Pratt Canada, they were relatively flat, up about 1% on their units, but we expect that to tick up as well in '25, probably similar to what we're seeing on the Large Commercial Engines side in terms of units. Offsetting that, of course, is a little bit of mix headwind, but we're pretty happy with the performance that Pratt generated at the end of the year.

Good pricing on their engines. And we see that continuing as we get into '25. Now a little bit early to kind of get ahead of ourselves here, but if there's upside, we're prepared to, and capacitized, to meet that growing ramp.

Operator

Our next question comes from Sheila Kahyaoglu of Jefferies. Your question please, Sheila.

Sheila Kahyaoglu -- *Analyst*

Good morning, guys and thank you. Maybe just still picking up on commercial aero on Pratt. 2024, if we look at the OE growth, it was about 21%. GTF deliveries were up 14%.

So is that 7-point delta all price on spares on GTF? How do we think about that in '25? And on Pratt EBIT growth of $350 million at the midpoint, or $370 million, does that all drop through to the free cash flow bridge too, Neil? Is there -- how do we think about negative engine margin factoring in more investment in GTFA and just aftermarket incrementals?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Yeah. So let me start with the OE top line and then I'll move to the -- how that's dropping through in our walk for '25. We had a good mix of engines delivered last year at Pratt. And so as I look at this year, I think we'll see a modest tilt toward more installs, but we're still going to see a very robust level of demand for spare engines.

As you know, the fleet is in need of that support, and there's plenty of demand out there, and we're getting good pricing on those. So I expect that to continue. In light of that mix shift, as we think about the '25 walk, the majority of Pratt's profit growth will come from aftermarket. We're going to see really good drop-through on the aftermarket, probably to the tune of $500 million or so.

You'll see your expected level of drop-through on the military side of the growth in the business. And offsetting that, of course, is going to be some negative engine margin headwind. I'd put that in the range of $150 million to $200 million kind of range as we see the volumes continue to tick up. But as I've said for a long time now, getting these engines out in the field is healthy for the fleet, and it just gets us started faster on getting to the aftermarket phase.

And as you think about the aftermarket phase of the GTF today, sitting in a really good position. It's growing at a robust rate, it is profitable, and we've been profitable for several years. And I think there's continued runway not just on the margin side, but as you know, given the nature of these agreements, those will -- those future shop visits are going to come with cash payments. And so that will create additional tailwind for Pratt & Whitney and for RTX as we look out over the next few years.

Sheila Kahyaoglu -- *Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Seth Seifman of J.P. Morgan. Your question please, Seth.

Seth Seifman -- *Analyst*

Hey. Thanks very much and good morning, everyone.

Christopher T. Calio -- *President and Chief Executive Officer*

Good morning, Seth.

Seth Seifman -- *Analyst*

Maybe a question and maybe a tag on a quick clarification at the end. On the question, the age of the fleet is obviously supporting growth in the aftermarket at Collins. When you think about growth from here, how do you think about production and deliveries back about five or six years ago as we headed into the COVID period, the number of planes that are coming off warranty and how that's going to affect aftermarket growth at Collins? And then just quickly, if you could talk about the number of large engine deliveries you expect at Pratt this year.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Seth, let me start maybe on just the installed base kind of comment. We've been talking a bit about we were at, obviously, lows of deliveries back in the 2020, 2021 time period, with each year thereafter growing. And as Collins delivers new products, they are under warranty for a period of time. So you can expect that each year that rolls off a warranty is larger than the year that preceded it, at least for the last several years.

So I expect that to continue to provide some tailwind on to the Pratt installed base. Think about it, they've got $160 billion installed base out there. And so it's going to begin generating even greater volumes of aftermarket going forward. So that's how I think about the aftermarket there.

And just to follow up, Pratt is similarly situated. There were about 800 V2500 shop visits in 2024. We see about the same exact number as we look at '25. So continued robust demand.

Retirements are very low. And we expect that to continue as well for the next several years at least. And in addition, we're getting good content on those shop visits because 20% of those engines haven't seen their first shop visit yet and only 55% have seen one. So we've got plenty of tailwind in the installed base of both of those businesses looking over the next five years.

Seth Seifman -- *Analyst*

Great. And then on the deliveries?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Yes. So yes, just to clarify here, we had about 14% growth in the units delivered of Large Commercial Engines in '24. We expect about the same growth in '25.

Seth Seifman -- *Analyst*

Great. Thank you very much.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Yeah. Thank you.

Operator

Thank you. Our next question comes from the line of Jason Gursky of Citi Research. Your question please, Jason.

Jason Gursky -- *Analyst*

Yes. Thank you. Good morning, everybody. Chris, I was wondering if you could spend a few minutes talking about your top 3 or 4 priorities for the year.

I suspect some of that will be productivity. So I'm just kind of curious to get an update on productivity across the company, maybe where you are relative to where we were pre-pandemic and what it's going to take to get us back to the productivity that you saw then. And then Iron Dome, what does that mean? What kind of opportunity is there for you all if we do really put up an iron dome here in the United States? Thanks.

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. Thanks, Jason. So on the priority front, as you might imagine, with a $218 billion backlog, our No. 1 priority is executing on that backlog and executing on our commitments.

And I'll tag on, of course, the GTF recovery plan there and making sure that we continue to ramp MRO. The demand out there continues to be robust, both defense and commercial. Our customers need our products. And so we've got to just continue to ramp, on the Pratt and Collins side, we've got to continue to have a healthy supply chain to make that happen.

We have a number of people embedded in our supply chain for that reason. At Raytheon, we've seen it's now the seventh quarter in a row of material receipt growth, so happy about that. We need to continue to ramp on rocket motors. I'd say, on some programs, Jason, we're in a healthier position.

On others, we're falling behind. But again, this is all about executing on the backlog. Now a key piece of that, of course, is kind of your second question, which is on productivity. You heard what I said upfront, 11% sales growth, 2% head count growth.

These are the kinds of initiatives that we need to continue to drive in order to deliver the backlog at the margins that we've committed to. Again, a big part of that will be our core operating system, continuing to increase the number of engagements. And those are things you just see across the business: leaning out our factories, leaning out our processes, just becoming more efficient, all around driving waste out of the system. And we're also making investments, Jason, in automation, in AI, things that will continue to drive productivity without the need to add headcount, again, doing things faster and cheaper along the way.

And then your third question on Iron Dome. Well, look, as you know, we're a major partner in Israel's Iron Dome today. I suspect, in the U.S., you're going to probably need to evolve that to address different types of potential threats, perhaps longer-range strikes, protection of infrastructure. But again, layered integrated air and missile defense systems are core to us.

It's the bedrock of Raytheon, and they are among the best at it. And so we're ready to engage on this as it takes shape over the study period. We view this as a significant opportunity for us, something right in our wheelhouse.

Jason Gursky -- *Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Gautam Khanna of TD Cowen. Please go ahead, Gautam.

Gautam Khanna -- *Analyst*

Yeah. Thanks. Good morning, guys. I was wondering if you could just broadly comment on the supply chain, where you're still seeing constraints? In the past, you've talked about heat exchangers and seats and the like.

It sounds like at Pratt, the output is getting a lot better. But if you could just talk broadly where the pinch points are and kind of how those have progressed maybe over the last 90 days.

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. A lot of the pinch points and the areas of focus are just as I was going through previously. Again, structural castings for us, 12% year-over-year growth at Pratt, need that to continue to ramp. Need to continue to ramp in isothermal forging production.

We own a lot of that value stream, but there's other pieces of it that we don't. We need to continue to see that ramp up. Collins, it's been microelectronics, generally speaking. We've seen those lead times come back into line, so feel good about that.

At Collins, there's really like 33 suppliers that drive about 50% of the overdue line items. And so laser-focused on those 33 with people embedded there to drive that. And then again, at Raytheon, the big piece, of course, rocket motors, as I just mentioned. We're seeing progress on some programs, need to ramp on others.

So as your question suggests, the supply chain is going to be critical to executing on the backlog that I just mentioned. And so it's a critical focus area for us. You mentioned seating and heat exchangers. I'll just say on the interiors business, sort of writ large at Collins, so double-digit sales growth last year.

So feel good about the trajectory as that business continues to recover. Seating specifically, we continue to work through the certification there. These are complex, especially on the first class and business seats, and the certification requirements are relatively high. They've got a high bar there.

But we think we have our arms around those and what we need to do there to get those certified, to the airframers and then out to our customers. And then on heat exchangers, I would tell you that we continue to make progress on the production ramp and the recovery. Doubled production output last year and remain on track to recover to the needs of our customers here in 2025. So feel good about the progress there.

Gautam Khanna -- *Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Matt Akers of Wells Fargo. Your line is open, Matt.

Matt Akers -- *Analyst*

Hey. Good morning, guys. Thank you for the question. Can you touch on pension? It looks like FAS/CAS a little bit of a headwind in '25.

Is the thought that that will still sort of lead lower in the out years? And if so, what's kind of the headwind we should think about for FAS and CAS?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Yeah. Thanks, Matt. Yes, we definitely see a headwind here, $0.15 as we outlined in our outlook. Our plans remain really well funded.

In fact, we ended the year with a funded status of 104%. And so as a result, over the last number of years now, we've employed a de-risking path, which essentially is enabling us to design a plan to protect that funded status. And so as a result of that, we will expect to see the income come down a little bit, and it has. But by and large, the plans that we put in place for the pension remain really, really strong.

We continue to see income and expect to have significant income beyond, but it will trail off a little bit each year after 2025. So obviously, there's a lot of assumptions that go into the pension. But by and large, we're in a really good position as we exited '24, and expect that to continue.

Matt Akers -- *Analyst*

OK. Thank you.

Operator

Thank you. Our next question comes from the line of Ken Herbert of RBC Capital Markets. Please go ahead, Ken.

Kenneth Herbert -- *Analyst*

Yeah. Hi. Good morning.

Christopher T. Calio -- *President and Chief Executive Officer*

Good morning, Ken.

Kenneth Herbert -- *Analyst*

Hey. Chris or Neil, you called out provisioning in particular as a real source of strength for the aftermarket at Collins in the fourth quarter. As you think about the, call it, 10% growth in '25, can you provide -- for Collins in particular, can you provide any disaggregation of provisioning versus repair the parts of the business? And I guess as part of that, is there any incremental risk you're seeing around destocking at airlines as they think about spare parts across the Collins portfolio? Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

You're welcome, Ken. Let me start with the last part. We haven't really seen any significant destocking. Obviously, the aftermarket growth for the last several years has been tremendous.

And I think we're expecting at the RTX level about 10% growth again here in 2025. If you think about the Collins side of the business in particular and break it down a little bit, we still see parts and repair up in the high single digits, maybe a little bit better. We're getting really good -- obviously, installed base is growing. I just talked about that, plus we're getting good pricing.

On the provisioning, probably a little bit more in line with the OE growth, mid-single digits, which tends to track sort of the install -- or not the install, the delivery of new aircraft. What's going to be a bright spot for Collins this year is mods and upgrades. That will be over 10% coming off a year that was flat. Obviously, that depends on the kinds of upgrades that are required, often regulatorily driven.

But that's another area that's expected to be strong for Collins as we go through 2025. So feel really good about where we are. And obviously, going back to that installed base of $160 billion, and over at Pratt, it's also very significant, so a lot of tailwind in the aftermarket going forward.

Operator

Thank you. Our next question comes from the line of David Strauss of Barclays. Your question please, David.

David E. Strauss -- *Analyst*

Thanks. Good morning. Two-part question. Neil, first on GTF aftermarket, you gave some rough color there.

Could you just be a little bit more precise where exactly you're booking GTF aftermarket today, I guess, in 2024 and expectation for '25? I think previously back at the Investor Day in '23, you talked about getting to mid-teens aftermarket margins on GTF. That's my first question. And then second question, on Collins, I think you had previously talked about this being a 40-plus percent incremental margin business getting close to 20% margins in 2025. We're obviously not going to get there.

So what's the right level of incremental margins to think about on Collins going forward?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

All right. Thanks, Dave, for the question. Let me start with the aftermarket. Let me give you a little bit of background here.

Obviously, the aftermarket is growing substantially as we do a lot of accelerated shop visits as it relates to the powder metal matter. And the margins are not quite at the mid-teens level, but I will tell you that they're near double digits. And if you average the last couple of years, they're over double digits. So we've been doing a good job of getting margin in the aftermarket.

And we've talked about some of the EIS contracts that we have here, and as those continue to age out and burn down and get replaced with newer contracts with the airline customers, we're getting good pricing, because the engine is performing really, really well. And so in addition to that, we're putting a lot of new material and enhancements into the engine to improve its durability. And as Chris alluded to in our prepared remarks, the GTFA coming online at the end of this year, which Chris will probably comment on in a minute. So all of the right ingredients there for continued growth, certainly on the top line, continued expansion of margins as we move forward.

And really pleased to see that for the last several years, this has been a profitable part of the Pratt & Whitney business. And as the V2500 continues to be fairly steady for the next several years, the GTF is going to be tailwind to Pratt as we get into the later part of the decade. So really good there. As far as Collins and the incrementals, if you look at the outlook we put out today, you're going to see about a 40% incremental margin.

I'm not going to get ahead of ourselves today, but I'd say longer term, we see nothing that says that the Collins business can't return to its pre-COVID margins. They've done an incredible amount of work to drive cost out of the business. They have even more actions in place for 2025. And I think there's tremendous opportunity.

Obviously, we've been dealing with some inflation, that was on plan. And the OE volumes, if I were to look back four years ago to what we were assuming versus where we are today, they're below that today. So I think they've done a nice job to compensate for under-absorption in the business, and there's clearly some runway as we look ahead and beyond 2025. Chris, any comments on --

Christopher T. Calio -- *President and Chief Executive Officer*

The only thing I was going to amplify on, David, was on the advantage. Obviously, we're very pleased with where we are from a testing and certification perspective. But the GTF aftermarket margins are going to be all about driving increased time on wing on the installed fleet today. And those things we're going to be delivering before GTFA fully cuts over.

And so we are aggressively continuing to put in and develop enhancements to improve time on wing, whether those be additional cooling holes, whether it would be coding. The other thing I'll tell you is, as we've gone through the GTFA certification process, we are identifying elements that we can go bring back into what I'll call the base program. These are things that maybe a few years ago we weren't sure we would be able to port over, but we're feeling today like that's something we really want to pursue and have an avenue toward. So again, that will be very important as well to drive the GTF aftermarket margins.

David E. Strauss -- *Analyst*

Thanks very much.

Operator

Thank you. Our next question comes from the line of Noah Poponak of Goldman Sachs. Please go ahead, Noah.

Noah Poponak -- *Analyst*

Hey. Good morning, everyone.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Hey, Noah.

Christopher T. Calio -- *President and Chief Executive Officer*

Hey, Noah.

Noah Poponak -- *Analyst*

Neil, you just touched on it at Collins, but I was -- I wanted to ask, if I take a step back and zoom out and look at those 2025 segment margin targets from 2021, and you referenced that a lot has changed, but which of those are still achievable in the medium term and have just had cost inflation or some other more transitory headwind versus which of those have structurally changed and the old target is just no longer relevant?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Listen, I think all of the margin targets we've talked about are achievable in the business in the long term. If you take them one by one, Collins has shown significant margin improvement already. We have another 150 basis points of margin improvement baked into the '25 outlook. And I think with the volume of the aftermarket, the cost reduction focus, and the actions we're taking in the supply chain, they will get there too.

It's going to take a little while. Obviously, there's been a number of headwinds that we could not have contemplated back in 2021. I recall when we put these targets out there, we were among the first company talking in the COVID environment publicly. So it was really unique times.

We've also lost over $0.75 billion of sales due to the Russia-Ukraine conflict. So there's been a lot of changes, but I think we've done a lot to overcome them. At Pratt, you saw good margins coming out of the fourth quarter. And again, we think Pratt has the potential to grow its margins to where we thought they'd be today.

They're not too far off. The top line has grown faster, and obviously, that's been driven by aftermarket and the GTF, which comes with a lighter margin, but still positive, as I just talked about. And then, of course, Raytheon see no reason why that can't get to margins that are north of 12%, 12.5% as well. So the productivity there at Raytheon continues to improve.

We saw good improvement in '24. We're expecting another $100 million in 2025 year over year. So I think all things are on track. But there's been a number of changes, but I think we're doing what we can and controlling what we can control.

Christopher T. Calio -- *President and Chief Executive Officer*

Yes. I mean, David, some puts and takes for sure. But I would say that we feel even stronger about the underlying fundamentals of each of the businesses. Inflation was a huge headwind when we put those out in '21.

But I would just say we -- our conviction around the fundamentals and margin runway for each of the businesses remain strong.

Noah Poponak -- *Analyst*

OK. And Neil, what's your latest assumption for the last year you have a GTF powdered metal cash flow headwind?

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

So as I said a little earlier, we've got the residual amount parked in 2026 right now. We've done a nice job, I think, of managing the profile of cash flow so far. We're working very closely with our customers, obviously, to support them. But right now, I've got that parked in 2026.

Could it linger a bit? I suppose. But I think we're talking about a tailwind when we go from '25 to '26.

Noah Poponak -- *Analyst*

OK. Thank you.

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

You're welcome.

Operator

Thank you. Our final question comes from the line of Scott Mikus of Melius Research. Please go ahead, Scott.

Scott Mikus -- *Melius Research -- Analyst*

Good morning. Neil, Chris, I was hoping if you guys could provide some color on the production rates implied in your guidance for the 737, A320, 787, how have they progressed through the year. And then also a quick question on Collins. Do you have any update on the certification timing for the new business class seats there?

Christopher T. Calio -- *President and Chief Executive Officer*

Yeah. Thanks for the question. I don't want to get out too far ahead of our customers. You'll hear from them over the coming days.

But we are expecting commercial OE growth, as we said, up in the mid-single digits. Our focus, frankly, as I said earlier, is continuing to work with the supply base to make sure that we are all in sync. I want to make sure that they know what they need to deliver and that we're doing everything we can to help them, which is why we've got hundreds of folks there doing that. So again, you heard Neil say this, at Collins, we've got the capacity to continue to ramp.

We've actually gone and protected some long-lead items in case the ramp is even greater than we think. But we're going to stay super tight with the customers to make sure that we can continue to support them going forward. On the seating question, again, as I said earlier, those are some very complicated certification requirements, and we are working through some testing, but feel like we've got our arms around those, generally speaking, and have a path forward.

Scott Mikus -- *Melius Research -- Analyst*

All right. Thanks for taking the questions.

Operator

With that, I would now like to turn the conference back to Nathan Ware.

Nathan Ware -- *Vice President, Investor Relations*

All right. Thank you, Latif. That concludes today's call. As always, the Investor Relations team and I will be available for follow-up questions.

Thank you all for joining us today, and have a good day.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Christopher T. Calio -- *President and Chief Executive Officer*

Neil G. Mitchill, Jr. -- *Chief Financial Officer*

Nathan Ware -- *Vice President, Investor Relations*

Neil Mitchill -- *Chief Financial Officer*

Chris Calio -- *President and Chief Executive Officer*

Myles Walton -- *Analyst*

Peter Arment -- *Analyst*

Ronald Epstein -- *Analyst*

Ron Epstein -- *Analyst*

Scott Deuschle -- *Analyst*

Robert Stallard -- *Analyst*

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David Strauss -- *Analyst*

Noah Poponak -- *Analyst*

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