Textron (TXT) Earnings Report: Q1 2015 Conference Call Transcript

The following Textron conference call took place on April 28, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Doug Wilburne; Textron; VP - IR
- Scott Donnelly; Textron; Chairman, CEO
- Frank Connor; Textron; CFO

Other Participants

- Carter Copeland; Barclays Capital; Analyst
- Sheila Kahyauglu; Jefferies and Co.; Analyst
- George Shapiro; Shapiro Research; Analyst
- Sam Pearlstein; Wells Fargo Securities, LLC; Analyst
- Julian Mitchell; Credit Suisse; Analyst
- Cai von Rumohr; Cowen and Company; Analyst
- Peter Skibitski; Drexel Hamilton; Analyst
- Noah Poponak; Goldman Sachs; Analyst
- Myles Walton; Deutsche Bank; Analyst
- Johnny Wright; Nomura; Analyst
- Jeff Sprague; Vertical Research; Analyst
- David Strauss; UBS; Analyst
- Jon Raviv; Citigroup; Analyst
- Ronald Epstein; BofA Merrill Lynch; Analyst
- Robert Stallard; RBC Capital Markets; Analyst
- Steve Levenson; Stifel Nicolaus and Company; Analyst
- Justin Bergner; Gabelli and Company; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the Textron first-quarter 2015 earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. At this time I would now like to turn the conference over to our host, the Vice President of Investor Relations, Mr. Doug Wilburne. Please go ahead.

Doug Wilburne (VP - IR):

Thanks, Dan. Good morning, everyone. Before we begin, I'd like to mention we will be discussing future estimates and expectations during our call today. These forward-looking statements are subject to various risk factors, which are detailed in our SEC filings and also in today's press release.

On the call today we have Scott Donnelly, Textron's Chairman and CEO, and Frank Connor, our Chief Financial Officer. Our earnings call presentation can be found in the Investor Relations section of our Web site.

Textron's revenues in the quarter were $3.1 billion, up $226 million from last year's first quarter. Income from continuing operations was $0.46 per share, up $0.31 from the first quarter of 2014. Textron Aviation operating results included a $5 million reduction to segment profit from fair-value step-up adjustments to acquire Beechcraft inventories sold during the quarter. Manufacturing cash flow before pension contributions of $20 million was a $125 million use of cash compared to a $111 million use of cash in last year's first quarter.

With that I'll turn the call over to Scott.

Scott Donnelly (Chairman, CEO):

Thanks, Doug. Good morning, everybody. Revenues were up nearly 8% in the quarter, reflecting the success of our strategy in investing in new products and acquisitions. We achieved this increase in top line at Textron despite an expected decrease in revenues at Bell.

Decline in revenues at Bell was primarily due to lower volumes in our V-22 program where we delivered six V-22s, down from eight aircraft a year ago. We also delivered four H-1 aircraft down from five units in last year's first quarter. This is just timing on the H-1s as we still expect to deliver about 25 units for the full year.

On the commercial side we delivered 35 aircraft, up from 34 a year ago, but our mix was unfavorable as strength in the light end of the market was offset by softness in the medium segment, with no 412 deliveries in the quarter.

Based on the continued softness in the medium segment of the market, we are adjusting production levels and taking additional cost actions to be allow Bell to perform within its targeted 2015 segment margin range of 11% to 12%. We still expect that commercial deliveries will be up this year, but probably only modestly so given the current demand environment.

While the medium segment remains challenging, our win rate continues to be favorable. We got an especially good success at HELI-EXPO, where we signed 238 orders for in-production aircraft including a 200-unit order from Air Methods for our new 407GXP model. At the show we also signed 29 letters of intent for the 525 Relentless and 24 for the 505 Jet Ranger X.

In addition to HAI orders, we received an order for seven 412s from the Canadian Coast Guard, which we expect to begin delivery in 2016 and announced two orders totaling 31 407s for customers in the Middle East and Mexico, reflecting success in the international markets. We also celebrated the opening of two new regional sales and services offices in Tokyo and Abu Dhabi to better serve our customers in those regions.

On the new product front, we continue to make progress on our safety-of-flight testing with the 525 Relentless test aircraft and are expecting first flight soon. Development of our 505 Jet Ranger X program is also proceeding well, with a second-flight test aircraft now in the air.

There were also a number of promising developments on the military side of Bell in the quarter. First, the V-22 was included in the US presidential budget for the Navy carrier on-board delivery mission, which calls for 44 aircraft. This would provide a solid basis for a third multi-year contract beginning in the 2020 time frame. The Japanese V-22 program continues to move forward as we were in country last month meeting with a customer and expect contract signature this summer. Deliveries could begin in late 2018.

We are also seeing foreign opportunities take form for the H-1s as the US State Department announced its approval of a potential sale of 15 AH-1Z Vipers to Pakistan. So while we continue to see lingering weakness the medium helicopter segment, we believe the growth outlook at Bell over the next several years remains strong driven by our expanded global commercial sales efforts, recent commercial product upgrades, new commercial products on the way and foreign military opportunities for both the V-22 and the H-1.

Moving to Systems, as expected revenues were also down in the quarter primarily driven by lower vehicle deliveries. However, we are making good progress in our Canadian TAPV program and believe we are still on track for initial deliveries in the fourth quarter. We're also working on a number of additional foreign opportunities that should contribute to fourth-quarter vehicle deliveries.

At Textron Marine and Land Systems, we were awarded an $84 million contract for two additional Ship to Shore Connector units to be delivered in 2019, with the original two units scheduled to roll off the line in 2017 and 2018.

Moving to Unmanned Systems, we were awarded a contract for 10 additional TCDL V2 Shadow retro-fit systems as well as a number of additional contracts for our fee-for-service platform. At TRU Simulation and Training last month, we unveiled our Bell V-280 simulator at the Army Aviation Mission Solution Summit, giving the Army leadership and users tangible hands-on experience of this revolutionary capability of the new platform.

Moving to Industrial, we saw a 9.4% increase in revenues after a 7.7% negative impact from foreign exchange, reflecting increased volumes in our automotive markets, the success of new product programs and the impact of the TUG, Douglas Equipment and Dixie Chopper acquisitions. At Jacobsen, we introduced a new Truckster HD heavy-duty utility vehicle. With a choice of gas or diesel engine and over 3,500 pounds of payload, it's the most powerful utility vehicle available in its class and provides compelling new product in the J portfolio.

In the tools and test business, Sherman + Reilly introduced a number of new products, including the Revolution Series P1400, the first of its kind, the 14,000 pound electric puller for lines, and a new line of termination tools for the power line industry. Operating results were also a bright spot in Industrial in the quarter, as the higher volumes contributed to a year-over-year margin increase of 110 basis points.

Moving to Textron Aviation, in the quarter we delivered 33 jets compared to 35 last year, as well as 25 King Airs. Margins in the aviation segment continue to improve, reflecting our expanded scale and efficiency improvements.

On the service front at Aviation, during the quarter, we extended our ProAdvantage jet after-market support programs to Hawker customers, plus added to our King Air service footprint with certifications in Sacramento and Paris. Development on our new Latitude remains on pace for FA certification in the second quarter, as the flight test program is now complete and we should be on track for Latitude deliveries in the third quarter.

The availability of used Citations continues to come down, with used aircraft under 10-years old declining to 1.6% of the active fleet. Used aircraft are continuing to move fairly quickly, and we've also seen evidence of improving residual values, especially for aircraft with low hours. New jet demand is usually seasonably lighter in the first quarter. The customer interest and inquiry activity was relatively healthy and consistent with our outlook for the year.

To sum up at this point in the year, we're confirming our full-year Textron guidance for both earnings and cash flow as we expected stronger results at Textron Aviation and Industrial will offset the lower volume at Bell.

With that, I'll turn the call over to Frank.

Frank Connor (CFO):

Thank you, Scott. Good morning, everyone. Segment profit in the quarter was $259 million, up $40 million from the first quarter of 2014, on a $226 million increase in revenues.

Let's look at how each of the segments contributed, starting with Textron Aviation. At Textron Aviations, revenues were up $266 million from this period last year, primarily reflecting the impact from the Beechcraft acquisition. This segment had a profit of $67 million compared to $14 million a year ago. This was driven by improved performance reflecting the impact of the Beechcraft acquisition and higher overall volumes. Backlog in this segment ended the quarter at $1.3 billion, $99 million lower than at the end of the fourth quarter.

Moving to Bell, revenues were down $60 million, primarily reflecting lower V-22 deliveries. Segment profit decreased $20 million from the first quarter in 2014, primarily reflecting lower military volume and an unfavorable mix of commercial aircraft deliveries in the quarter. At Textron Systems, revenues down $48 million, primarily due to lower Marine and Land Systems volumes. Segment profit was down $11 million reflecting the lower volumes.

Industrial revenues increased $75 million due to higher overall volumes and the impact of acquisitions, partially offset by a $62 million unfavorable impact from foreign exchange. Segment profit increased $16 million reflecting the higher volumes. Finance segment revenues decreased $7 million and profit increased $2 million.

Moving below the segment profit line, corporate expenses were $42 million and our tax rate was 30.4%. Interest expense was $33 million, down $2 million from the first quarter of 2014.

To wrap up with guidance, we estimate that our announced cost reduction activities at Bell will result in pretax charges in the range of $40 million to $50 million, which will be recorded as part of segment expenses. Inclusive of the charges, related cost savings and lower expected revenues we still expect full-year margins at Bell will be in the 11% to 12% range. From a total-Textron perspective, stronger results at Textron Aviation and Industrial are expected to offset lower volume at Bell.

Therefore, we are confirming expected full-year EPS from continuing operations of $2.30 to $2.50 a share and cash flow from continuing operations of the manufacturing group before pension contributions of $550 million to $650 million.

That concludes our prepared remarks. Dan, we can open the line for questions.

QUESTIONS & ANSWERS

Operator:

Thank you, sir.

(Operator Instructions)

Our first question comes from the line of Carter Copeland from Barclays. Please go ahead.

Carter Copeland (Analyst - Barclays Capital):

Good morning, gentlemen.

Scott Donnelly (Chairman, CEO):

Good morning

Carter Copeland (Analyst - Barclays Capital):

Frank, just a clarification or, maybe, if you could give us a little more detail, on the charges for the cost actions at Bell, obviously $40 million, $50 million, if you still think you're going to come in within the prior range, I was just wondering if there was something other than run rate savings there would apply a lot of savings? Is there something else as an upper that's helping you overcome that $40 million, $50 million or am I missing something?

Frank Connor (CFO):

No, it's really run-rate savings and the way that then gets rolled through the EACs from a cost-production standpoint. So, obviously, we'll have headcount savings. We'll have rate savings. We are doing other things on the discretionary side as well.

When you look at those savings from a program accounting standpoint as well as the cost, it will roll through such that we don't expect any big impact in any particular quarter and what we should see is the generally the same type of seasonality from a quarterly standpoint as we've seen at Bell over the past couple of years with improving margins as we go through the year on higher volumes. But it will get spread out over that period of time.

Carter Copeland (Analyst - Barclays Capital):

Can you quantify how much of that is the EAC [keum] catches that is you'll get out of that for this year?

Frank Connor (CFO):

It's not really [keum] catches, it's just as we -- there'll be a little bit of [keum] catch, but it's mostly as we deliver product we'll have lower cost embedded in those products. We're on a units-of-delivery basis and so it rolls through as we deliver units

Carter Copeland (Analyst - Barclays Capital):

Okay, great. Then just one other one. With respect to the market softness, you talked about, Scott, the -- I wondered if there is any after-market service support impact in Bell related to the weakness -- it's probably related to lower usage, that you might be seeing in Bell as well?

Scott Donnelly (Chairman, CEO):

No, we're trying to keep an eye on that and have some concern about it, but in the our quarter our after-market activity was fine and we continue to see order activity, so utilization still seems to be okay. I think what we're really seeing is more people just a little nervous about investing in the new CapEx and putting new aircraft in to replace their older aircraft. But, at least to date, utilization and after market seems to be fine.

Carter Copeland (Analyst - Barclays Capital):

All right. Thank you, gentlemen.

Operator:

Thank you. Our next question comes from the line of Sheila Kahyaoglu from Jefferies. Please go ahead.

Sheila Kahyauglu (Analyst - Jefferies and Co.):

Hey, good morning, everyone. Scott, how should we think about the progression of the backlog within Aviation? When can we start to see that move up a bit?

Scott Donnelly (Chairman, CEO):

Sheila, the thing that's most likely to start to impact our backlog here in the balance of the year is getting through certification on Latitude, which as I said, I think we're getting pretty close. We're done with flight test. We're done with all the ground test activities. At this point, really, we're really just into the paperwork exercise of getting through that.

So as a result, we now have a couple aircraft that we've recently been able to put out to be really dedicated to customer demo activity; those aircraft are pretty booked up. We think there's a lot of demand out there for the aircraft, a lot of customer interest. Now that we can really dedicate those assets to getting out there and doing customer demos, we would expect to see those orders start to finalize.

Sheila Kahyauglu (Analyst - Jefferies and Co.):

Okay. Are you sold out for any particular models throughout this year?

Scott Donnelly (Chairman, CEO):

It's pretty tight on a couple, but if you really wanted one, we could probably work with you to get you in somewhere.

Sheila Kahyauglu (Analyst - Jefferies and Co.):

I'll ask Doug for a favor. Then, I guess on underlying margins within Aviation, if we compare the first half of last year versus the quarter, about 200 basis points of underlying improvement excluding the PP&A. Should we expect that kind of improvement as we progress throughout the year, or could you attribute that to pricing? Was it Beech? Was it productivity? Maybe if you could just elaborate a bit there?

Scott Donnelly (Chairman, CEO):

Yes, I think that that's probably going to be typical for the year. I think the volumes we expect to be online with what we're expecting for the beginning of the year. We got a slight uptick, we think, on a year-over-year basis on the King Airs, which are doing well, so, yes, I think the trajectory we're on is going to track a couple hundred basis points better.

Sheila Kahyauglu (Analyst - Jefferies and Co.):

Okay. Thanks.

Operator:

Thank you. Our next question comes from the line of George Shapiro from Shapiro Research. Please go ahead.

George Shapiro (Analyst - Shapiro Research):

Yes. Good morning. Scott, I was wondering on the orders, if you could just go out and talk a little bit about where the strength is? US versus international, are you seeing any impact negatively internationally because of the dollar, so a little more color on that, if you could?

Scott Donnelly (Chairman, CEO):

I think the dollar is a problem, George, and in some parts of the world, obviously, because of -- I mean, the dollar has strengthened so much. Obviously in some markets, particularly in Eastern Europe and Russia where you've had a lot of devaluation and similarly in South America, it's created a lot of problem.

But I would say in general, right now on the jet side of things, the market is very driven by the North American market place, probably something around two-thirds to 80/20. Interestingly enough, it's almost exactly inverted if you looked at King Airs. The strength of the turboprop market has been more international. The US market is still good. There's been more demand internationally. So, total portfolio, it's balancing out a bit, but definitely on the jet business it's much more North American centric, and King Air, more international.

George Shapiro (Analyst - Shapiro Research):

Then, in Bell on the commercial, is the weakness, would you say, totally due to the oil and gas market or is there something else going on?

Scott Donnelly (Chairman, CEO):

I think it's mostly related to that, George, and certainly part of it is direct. If you're talking about customers whose mission is flying, specifically, oil and gas missions out to rigs, clearly that market is very soft right now given the price of oil.

For us a bigger knock-on effect of that is historically we see a lot of sales of a lot of our aircraft, particularly 412s, in emergency medical services and CSAR and a lot of quasi-military government operations, and a lot of those country that have very strong oil economies are seeing a lot of cutbacks in their budgets. I think there's a piece of it that is absolutely directly oil and gas, but I think the part that's been a bigger issue for us is just a lot of our customers our oil and gas, natural resource-driven economies, and they're soft right now.

George Shapiro (Analyst - Shapiro Research):

Okay. One quick last one for, Frank. What was the after-market growth at Aviation?

Frank Connor (CFO):

It was mid-single digits and consistent with what we've been seeing and expect to continue to see.

George Shapiro (Analyst - Shapiro Research):

Okay. Thanks very much.

Operator:

Thank you. Our next question comes from the line of Sam Pearlstein from Wells Fargo . Please go ahead.

Sam Pearlstein (Analyst - Wells Fargo Securities, LLC):

Good morning.

Scott Donnelly (Chairman, CEO):

Morning, Sam.

Sam Pearlstein (Analyst - Wells Fargo Securities, LLC):

Can you talk a little bit more about industrial. Just, it looks like sales and margins are certainly running ahead. I know you mentioned auto strength, but where is the higher volume? Is it the specialty vehicles business, like what is it that's driving things this year?

Scott Donnelly (Chairman, CEO):

Probably on an absolute dollar basis, the biggest increase is in the automotive side. We've seen good auto demand, but we've also seen very strong earns from the vehicle business. I'd say organically the business is growing nicely. Then, of course, you also have TUG technologies in the acquisition side for ground support equipment.

That acquisition is performing extremely well for us. We're seeing great top line and great margin delivery out of that, as well. It's kind of -- I'd say the good news is, it's pretty broad. The organic growth of the businesses and product lines that we were in has been very solid and the acquisitions that we've done in that space are also performing very well.

Sam Pearlstein (Analyst - Wells Fargo Securities, LLC):

Okay. Then just a question on the finance slide, the 60-plus-day delinquencies, why did those increase sequentially? I know it's not large dollars, but it's certainly a large percentage change?

Scott Donnelly (Chairman, CEO):

Yes, that's true. We had a couple customer accounts that moved into that 60-day window, and we have a little bit of the law of small numbers now, so if one or two aircraft become a problem it can swing that percentage by a pretty good chunk, even though it might be two airplanes and $20 million makes a big difference from a percent basis.

I don't think there's any fundamental underlying change there. I mean, clearly, some customers internationally, because of some the issues around US dollar and currency and whatnot, those payments have gotten a little more expensive, and so obviously we'll work through that. In general, I think we'll be fine.

Sam Pearlstein (Analyst - Wells Fargo Securities, LLC):

Okay. Last question, just on the $600 million in free cash this year, I know you've talked about at a minimum buying back enough stock to offset the employee programs. One is, how much buyback is required to do that? Then, what would it take for you to do more? You don't really have any other debt maturing, so I'm just trying to think about where else does it go?

Frank Connor (CFO):

We will buy back to offset the programs. It's about 3 million shares or so. As we've talked about, we will -- obviously, we continue to look at acquisition opportunities and we have had a steady stream of those. We expect that we will pay down a little more of the bank debt that we took on as it related to the Beechcraft acquisition.

Then, we've said that any excess capital after that we would look to continue, again, to return to shareholders through share repurchase activity, but the target from a share-repurchase standpoint is to offset the employee dilution number.

Sam Pearlstein (Analyst - Wells Fargo Securities, LLC):

Thank you.

Operator:

Thank you. Our next question comes from the line of Julian Mitchell from Credit Suisse. Please go ahead.

Julian Mitchell (Analyst - Credit Suisse):

Hi, thank you. Just a question around any change in the competitive landscape. In Aviation and in Sikorsky, you obviously have some competitors based in countries where the dollar has strengthened considerably against their local base, so how does -- has that changed anything yet you're seeing commercially? Also, there are obviously some idiosyncratic issues at a couple of rivals of yours right now. I just wondered if you'd seen any change from that as well?

Scott Donnelly (Chairman, CEO):

The dollar is not helpful for sure from a competitiveness standpoint, and I think that some of our European competitors do get an advantage out of that. Of course, they also have a fair bit of their supply chain that is dollar denominated, so it's not as big or at a disadvantage as it could be, but I think when you look at deals in Europe, for instance, right now, it does make it more challenging. Again, that's just the nature of a competitive market.

These things swing around. I think if you look at Latin America and Eastern Europe, Russia, the currency devaluations makes it a challenge for both dollar- and euro-denominated businesses, just because of the currency devaluation. At any rate I think -- I would not say that it has markedly changed what's going on. It makes it, certainly, tougher in Europe, but I think we're still winning and feel really good about where we are from a share perspective.

When you look at deals in Asia, we're competitive and we're winning. I think even though the helicopter market in particular we see as being pretty soft, I'd say that we feel very good about our order rate this year. In terms of share I think we're doing quite well.

Julian Mitchell (Analyst - Credit Suisse):

That's very helpful. Then, my second question is just on the Systems, the revenues were weak, but it sounded like very much in line with your planning assumption. It doesn't sound like your full-year view has changed on that segment, so I just wondered if you could confirm that? Also any color at all on the linearity of the sales progression? Is it going to be a very, very Q4-loaded year at Systems because of the TAP 3 delivery schedule, or do we start to see things improve a bit by mid year?

Scott Donnelly (Chairman, CEO):

I think we'll see things improve a bit by mid year, Julian, but absolutely our expectations and where we think it's going will be very back-end loaded and that really primarily is driven by the vehicle program. We clearly expect, and we think we're on track, to have a pretty big fourth quarter on the vehicle side of the business.

Julian Mitchell (Analyst - Credit Suisse):

Great. Thank you.

Scott Donnelly (Chairman, CEO):

Sure.

Operator:

Our next question comes from the line of Cai von Rumohr from Cowen and Company. Please go ahead.

Cai von Rumohr (Analyst - Cowen and Company):

Yes. Thank you very much. Give us a little more color on demand at Aviation? You say customer demand is quote/unquote healthy, and yet 0.85 book-to-bill hardly looks like healthy. How was it at Cessna versus legacy Beech? How did it roll out sequentially, since we've heard that January and February were very weak and March improved?

Scott Donnelly (Chairman, CEO):

I think the normal seasonality is demand is in line with our expectations, I guess is what I would say, Cai. The early first quarter is always very soft from an order intake perspective, and I think that's what we saw for the most part this year. On a seasonal basis, it's performing exactly as we would have expect.

I think we probably had the, in terms of customer activity and whatnot, as strong as we've seen in a while in Q1, and we're pretty happy with how things are progressing. Obviously, as I said earlier, the real demand driver for us in terms of any kind of backlog build would be around Latitude as that thing goes through its certification process. Even though the customer environment is considerably better than it has been, it is still a full business.

People are in conversations and as they get close to when they want to take deliveries, that's when they put their deposit down and sign up. As we've said, we'd love to be out three to six months, and we certainly have a couple models work out in more in that range, but generally speaking, it's still more of a flow business, but with a lot more customers are in the queue and a lot more conversations going around to yield what we need to see in terms of deliveries. Frankly, we feel pretty comfortable with that.

Cai von Rumohr (Analyst - Cowen and Company):

Given that Cessna depends on the US, where the economy is improving somewhat, and Beech depends on the foreign market, where there's less evidence of that, could you contrast demand between those two sectors?

Scott Donnelly (Chairman, CEO):

Cai, they've really been pretty similar. I think if you look at how deals progress, the number of customers that are in conversations, when they actually place their orders and take deliveries, as you point out and it is more international on the King Air side than domestic on the jet side, but still a very similar prospecting, selling, order-taking, selling process for both platforms.

Cai von Rumohr (Analyst - Cowen and Company):

Okay. Then, two quick ones on Bell. You said commercial up a bit. Would that include the 412? Secondly, if you're going to have $40 million to $50 million of pretax charges, how much would the run rate savings be against that?

Scott Donnelly (Chairman, CEO):

In terms of the unit deliveries, we still think they'll be up slightly over a year ago, primarily driven by higher volumes on 407s and 429s offset by probably slightly lower volumes on 412 versus last year, which is why we come back to the mix issue is what pressures margin side of this thing.

So, we're still feeling reasonably good about volumes on the lights, but clearly not so on the mediums. In terms of the cost and that roll-through, I mean, I would say most of the cost is related to severances and reductions of people. Generally speaking, if you forget program accounting and inventory and all that sort of stuff, you generally expect that those costs are recovered in a nine-month window. Obviously how you recognize that and see it through the P&L is going to be more of a function of the program accounting and the EACs and how that comes.

As Frank said, you'll see not a whole lot of impact on a quarter-to-quarter basis through the balance of the year because while we'll take the costs associated with restructuring, that will manifest itself in a program accounting where you won't see much difference in terms of the net impact through the balance of this year. Obviously, as you go out in time, you would start to see a positive benefit of that.

Cai von Rumohr (Analyst - Cowen and Company):

Okay. Thank you.

Operator:

Our next question comes from the line of Pete Skibitski from Drexel Hamilton. Please go ahead.

Peter Skibitski (Analyst - Drexel Hamilton):

Hey, Scott, I think you mentioned secondhand pricing in used jets, in your opening remarks, being maybe modestly improved. Can you tell us, is the improvement rolling through to meet pricing on some of the legacy models, or is that some kind of a flash environment and you just get a pricing power on the brand-new models?

Scott Donnelly (Chairman, CEO):

We've seen pricing fairly stable on the new models. We've seen a beginning of some uptick of residual values in the used aircraft, as you see in the [Vrefs] and the blue books, which is encouraging. I don't know that there's a direct correlation, frankly, to saying, okay, the price is up on the used and therefore translates directly to price on the new.

It does help us in terms of a customer that wants to trade in their old aircraft or sell their old aircraft and step up the new aircraft in terms of that gap in value between what they know they can get for their used aircraft and how much additional capital they're willing to put in to buy new airplanes. So as we see those residual values starting to rebound, I think it definitely bodes well for demand on the new aircraft side.

Peter Skibitski (Analyst - Drexel Hamilton):

Okay. Understood. Then, just wanted to follow up. I don't know how widespread this was, but I saw at least one article during the quarter that talks about a lot of nervousness on the TAPV program in Canada, just on the redesign. Can you tell us when is the redesign going to be done and fully tested? How thorough is this, such that it could eliminate the risk in the program?

Scott Donnelly (Chairman, CEO):

The redesign is complete. We have had initial vehicles with the redesign fully incorporated into them and out going through the test environment, so as we were doing the redesign -- and these things are all fairly well isolated to the steering suspension system, which basically we just had to beef it up.

The severity of the conditions of the test were, frankly, beyond anything that we've experienced before. We have a lot of these vehicles out there, obviously, of various different types, and we've never had issues or problems with any of those components. But the severity of the testing, frankly, pushed some of these things to literally break some of these steering numbers.

The redesign was, in essence, just beefing up those individual components, most of which are available and used in some larger vehicles. Interestingly enough, in some cases they were actually cheaper than the lighter versions because they're manufactured in higher volumes, and so we've been testing each of those new components as we could get our hands on them, and those have gone well.

As I said, we now have a couple vehicles out there that are completely the new design configuration with all of the new configuration components, and the testing so far is going great. It is an endurance test, so you have to get through that phase, which will take us another couple months, before we're comfortable enough to say we're ready to go into the formal customer testing. So far, the design is complete and the initial testing results are very promising.

Peter Skibitski (Analyst - Drexel Hamilton):

Okay. Appreciate it.

Doug Wilburne (VP - IR):

Pete, Doug here. I would add that article, if it's the one that I'm thinking of, I think if you read it closely, a lot of the information and quotes in that article are really from last year. It's really not current data.

Scott Donnelly (Chairman, CEO):

Yes, it was quite dated. This customer has been terrific to work with. I think everybody has had their head around the same thing in wanting to make sure we went back through the process so that the test was successful. The tone and the facts in that article were pretty dated.

Peter Skibitski (Analyst - Drexel Hamilton):

Okay. I appreciate it, guys.

Operator:

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

Noah Poponak (Analyst - Goldman Sachs):

Hi, good morning, everyone.

Scott Donnelly (Chairman, CEO):

Morning.

Noah Poponak (Analyst - Goldman Sachs):

Scott, are you surprised that the legacy, not new products Cessna demand environment is not getting better faster. Because, I guess it's been a few quarters since you first cited stabilization, you keep giving us the inventory as a percentage of fleet number for you, and it's improved a lot, and I don't even know if that could go any lower.

Is there just too much total market used inventory, so you're still competing with everyone else's used inventory? Or is it just a long-cycle business and it takes time to get escape velocity, or is this market just at a structurally new lower demand level for a while?

Scott Donnelly (Chairman, CEO):

The numbers, as you say, are down in terms of the used available. It's hard to imagine they could go much lower, frankly. They are certainly well below historical norms. The only thing I would say is that they still have, probably, a relatively higher spread between what the values are for those used aircraft as opposed to new aircraft. I think that's still is a drag on some of our customers because, again, that trade-in premium.

To say, okay, if I go from used to the new, how much cash do I have to kick in to do that is higher than it has historically been, so I still think that replacement cycle, people will drag that out just given that value gap, if you were.

But, the aircraft still keep getting older and they're using them more, and I think you'll have this longer timeline in terms of how many years old their aircraft is before they trade in. I think that's the primary dynamic still driving the market place.

That's why I think -- we've been talking now for a couple years, really, about the percentage coming down and coming down and coming down. This past quarter -- so it's really the first time that we're starting to see that residual value come up. I think that is actually more important than just that percentage.

And, frankly, we've been surprised that with such a low inventory of used aircraft, you'd think from a supply-demand standpoint you'd start to see the pricing come up, at least we're finally starting to see that. We've been surprised, frankly, over probably the last year, as that number really started to drop, that you didn't see a corresponding residual value increase. Like I say, finally we are starting seeing that, which is encouraging. That's what's driving that kind of demand environment.

Noah Poponak (Analyst - Goldman Sachs):

On the upgrading topic, is there also an issue with length of time the jet is with the first owner, where in prior cycles because of the maintenance warranty being five years you were getting a ton of upgrading in years four and five?

Now folks are extending that because, obviously, a plane can be used substantially longer, and once you go past the roll off of the maintenance warranty and you do that first major check, you then have signed up for keeping the airplane for a lot longer until you get to the next major check. Is that overall time an issue?

Scott Donnelly (Chairman, CEO):

I think that time is clearly being extended. What you're seeing is more customers that get to the end of that warranty period where historically would have said, okay, I'm going to go ahead and trade in.

Again, you go back to that, what's the step-up cost? What's the premium to go from that 5-year-old aircraft to a brand new aircraft? Instead, you're seeing people that are sticking with it, putting it on part programs and we do provide, obviously, for customers, and always have, for second customers, the ability to in essence extend warranties and pay to protect themselves from those costs, which is good business for us.

I think this all comes back, Noah, to that basic dynamic, all right, I'm at five years, whether it be coming off warranty, whether it's how many hours, whether it's just -- or going to larger lift, it's extending that lift because that residual value is substantially lower than it historically has been.

Noah Poponak (Analyst - Goldman Sachs):

Got it. Then, just lastly, on the margin for the overall aviation segment, I mean, you have an outstanding margin forecast for the year, could you possibly update us on that? Just because it looks like with the very good first-quarter performance, one can get substantially higher than that range you have there, just even simply using a 20% sequential incremental margin through the rest of the year. Any more color on where you expect the full year to land?

Scott Donnelly (Chairman, CEO):

No formal update, Noah. As I said, and I think as Frank referenced, we feel like given the demand environment and the performance of the business in total and we're still early in the year, obviously, but our perspective on the market and certainly our perspective on how the team is executing and delivering on cost in the product programs, we'll probably be towards the high side of that number.

Noah Poponak (Analyst - Goldman Sachs):

Okay. Thanks a lot.

Operator:

Thank you. Our next question comes from the line of Myles Walton from Deutsche Bank. Please go ahead.

Myles Walton (Analyst - Deutsche Bank):

Thanks. Good morning. Frank or Scott, I think you alluded to the service extension to offer customers. I was curious if you'd talk about the level of uptick you're seeing on that extension of your service program? Also, one year post the Hawker acquisition, can you comment on the level of cross totalization you've had in bringing customers over to the Cessna lineup? Any metrics you have against that to support it?

Scott Donnelly (Chairman, CEO):

We have a dedicated team, frankly, this is what they do for a living is reaching out to our Hawker customers. Part of what we just talked about around our ProAdvantage system is being able to go out to those customers and be able to put them on the same kind of maintenance and service programs that we currently have today for our Citation customers. That program and the needs of those customers is what drove that creation of that program based on the interactions that our dedicated Hawker team has had with those customers.

In terms of conversion, that's also something we look at and are working on, and we certainly have had. some of those. I would expect, frankly, when you talk to a lot of Hawker customers, many of whom are in Hawker 900s and 850s, things like that, these are cabin sizes in missions that fit quite well to where we're talking about going with Latitude and ultimately Longitude. I think most of that conversion will start becoming more material as we have the Latitude and then eventually the Longitude out in market place.

Myles Walton (Analyst - Deutsche Bank):

Okay. Then a clarification. From a sales perspective, it sounds like Bell may be looking for $4 billion roughly at the start of the year and maybe it's a few hundred million lighter than that, is that about the right thinking?

Scott Donnelly (Chairman, CEO):

That's probably about right.

Myles Walton (Analyst - Deutsche Bank):

Okay. All right. Great. Thanks, guys.

Operator:

Thank you. Our next question comes from the line of Johnny Wright from Nomura. Please go ahead.

Johnny Wright (Analyst - Nomura):

Hey, guys. About the restructuring points again, you guys saw a lot of money there in the last 12 to 18 months taking costs out. How confident are you that there's another $40 million to $50 million to keep you in that guidance range? Where are the new areas you're focusing on that you haven't looked before?

Scott Donnelly (Chairman, CEO):

You're right, we've gone through a number of restructuring, frankly, over the last couple of years in anticipation of the V-22 volumes coming down. I think all that's really changed here is that while we were undertaking to try to make sure we had a cost structure that's supported that, we've seen the softness on the commercial side. I don't know that there's any particularly different strategy here.

Obviously, we're looking very much at structure and looking at organization structure to try to find more efficient ways to operate given that it's a smaller business in terms of revenue and top line. It's primarily around structure in layers, overhead. We are not impacting our critical programs, so the investments in the 525 and 505 and V-280, which are significant, those are continuing full speed ahead.

This is never an easy process to go through, obviously, but we're working very hard to make sure that the costs come out in places that are discretionary or other overhead and indirect burden as opposed to affecting how we manufacture and deliver what we need to and make sure that we continue to make the progress on our new product programs.

Johnny Wright (Analyst - Nomura):

Okay. Thanks. Can you just provide an update on the Scorpion? Where we are at terms of timing for first orders, maybe just a number of customers you're in conversation with at this point?

Scott Donnelly (Chairman, CEO):

There's a number of customers in conversation right now. I would say that the number of customers that we're talking to is probably increasing at this point. I wouldn't hazard a guess a first-order date at this stage of the game, but I think we have a lot of good customer conversations going on.

The program is continuing. We're in the process of completing the design modifications that we wanted to make coming out of the original flight desk demo program and are in the process of the build cycle for what will lead to the first conforming aircraft. That's where we are on the program.

Johnny Wright (Analyst - Nomura):

Great. Thank you.

Operator:

Our next question comes from the line of Jeff Sprague from Vertical Research. Please go ahead.

Jeff Sprague (Analyst - Vertical Research):

Thank you. Good morning, gentlemen.

Scott Donnelly (Chairman, CEO):

Morning, Jeff.

Jeff Sprague (Analyst - Vertical Research):

I think you've covered a lot of ground here. I guess a couple things. On Latitude, can you give us the sense of to what degree you do have some orders in hand? Obviously, you're indicating that once you think you've got final cert it picks up, but any color you can provide there?

Scott Donnelly (Chairman, CEO):

We do have a number of orders for the Latitude, Jeff, so I think we're in a pretty good place in terms of initial delivery commitments and customers that are waiting for us to get through cert and begin the delivery process. There are some slots, obviously, to go for the year. As I said, I think we have a very robust level of customer interest and a bunch of folks that are waiting to demo and fly the aircraft and at that point make their decision on orders.

Having now finished the flight test program, we'll have a couple aircraft flying around the country, fully configured for customer interiors. It's pretty booked up, so I think there's a lot of interest, a lot of customers, but they all want to fly the aircraft. We, obviously, done a number of customer demos. We've had an aircraft that we had out there for a while doing demos and that generated some more of our activity, and I think we're at the point now in the program where that pace will increase.

Jeff Sprague (Analyst - Vertical Research):

Then, just taking that a step further, you had this mix down in Q1 and it's obviously a low-volume quarter. I understand the Latitude mission is obviously different Sovereign and XLS the capabilities are different, but is there some peripheral cannibalization of those product lines, you think, on anticipation of Latitude?

Scott Donnelly (Chairman, CEO):

The only thing I can think of, Jeff, is from a mixed standpoint, last year in Q1 we had just gotten the Sovereign+ certification in the very, very end of 2013. We had a lot of Sovereign deliveries in the first quarter of 2014, so I think we had good Sovereign deliveries in the first quarter this year, but not something that would have reflected that pent-up demand giving the late certification of Sovereign a year ago.

Jeff Sprague (Analyst - Vertical Research):

Sure, that makes sense. One last one. Just back on Bell, you hit it a couple times here in the Q& A. It sounds like on the restructuring you're telling us that effectively all or most of that $40 million to $50 million gets recovered, so you're close to net-net neutral on cost versus benefit on restructuring. A, is that correct?

Then B, if I just think about that being a wash, I'm still struggling a little bit with getting from 9% and change in Q1 to 11% to 12% for the year. Obviously there's some seasonal volume lift, but is there anything else in the mix or anything that really supports your confidence in that range?

Scott Donnelly (Chairman, CEO):

There is. First of all, your assumption is correct with respect to the discussion around the incurring of the restructuring charges and what that does on a net basis through the balance of the year.

Okay, so that's more or less a wash. In terms of how we think about quarterly progression of margins, generally speaking, as we work through the year at Bell, we do see increased volumes and we do see more favorable mix. In the first quarter, as I said, we had zero 412s, so we would expect the quarterly progression of margin rate, given that the restructuring and the balance and that netting out, you will see some of the normal incremental improvements in margin rate through the course of the year.

Jeff Sprague (Analyst - Vertical Research):

Okay. Great. Thank you very much.

Operator:

Thank you. Our next question does come from the line of David Strauss from UBS. Please go ahead.

David Strauss (Analyst - UBS):

Good morning.

Scott Donnelly (Chairman, CEO):

Morning, David.

David Strauss (Analyst - UBS):

Scott, could you talk about what you're seeing in terms of utilization on your own fleet that's out there in service? Obviously, we can see the FAA data, but I just wanted to get a sense of what you're seeing in terms of the utilization on your own fleet as it comes in for service? Does that -- are you seeing a pickup there? It looks like the FAA did. It picked up earlier in the year, but now has fallen back. Thanks.

Scott Donnelly (Chairman, CEO):

David, I don't have that on the tip of my tongue here. We usually keep track of the average flight hours, and I don't know if I have that in front of me. Usually what the FAA is reporting is takeoff and landings, and we usually look at the average daily utilization. There hasn't been a huge change in that, frankly. It's in the rounds.

David Strauss (Analyst - UBS):

Do you think that's the missing piece in all of this? I know we've talked about used inventories and used pricing, but do you think it's really possible that we can have much of a recovery before we see a pick up in average daily utilization?

Scott Donnelly (Chairman, CEO):

I don't know that there's a huge correlation from the ADU to the new aircraft sale. I really think that is more a basis of residual values versus new aircraft sale. We look at the ADUs more as a function of service activity and how much activity we're going to see through the service centers. Again, that's been relatively stable with -- as fleets get older and the installed base gets bigger, that's what's been driving our guidance around that mid-single-digit growth. That's what we continue to see, even though we've had relatively stable ADUs now for quite some time.

David Strauss (Analyst - UBS):

Is that ADU number still well below what you guys were seeing prior to the financial crisis?

Scott Donnelly (Chairman, CEO):

Oh, sure, yes. No. If you went back and you looked at -- it dropped off at the end of 2008, beginning of 2009 in just to the 0.67, 0.65, 0.64, I mean, it's been pretty flat for several years now.

David Strauss (Analyst - UBS):

Right. Okay. Thank you

Operator:

Our next question comes from the line of Jason Gursky from Citi. Please go ahead.

Jon Raviv (Analyst - Citigroup):

Good morning. It's Jon Raviv on for Jason. Question back on Bell. I was just wondering, is there more to cut, perhaps, if this oil market weakness continues? Related to that is, do you have any visibility on 412 deliveries this year? My understanding is that this is usually a spot market for helicopters, that is. Then if the market does come back, do you have to hire back up or does this restructuring suggest higher structural margins going forward when things improve maybe next year or the year after?

Scott Donnelly (Chairman, CEO):

Look, our intent -- you never like to go through this with the organization. Our intent here is that we would do this and that positions us to go through what we think is a fairly lean this year around that segment of the market and then well into the next year. Then of course, we have things like 505s and 525s and new things that are ticking in, and we've also taken some orders.

Some of the 412s can be a bit of a spot market aircraft here and there, but often they're are also fleet buys. So when you look at the Canadian deal, for instance, that's seven 412s, but those deliveries won't start until sometime next year into 2017. I think there are some other opportunities out there around 412s that are going to be similar. There's customer activity going on and some of them are fleet buys, but they're going to be, from a timing perspective, they'll be out there.

In terms of the ability to hire back if we have something on the production line, obviously we now who to modulate that production line. Those folks tend to be on recall, and we can bring people back in if we need do that to increase the production volumes. Clearly, on the salary side, we're trying to make it a structure of just how we organize and run the business, so that wouldn't necessarily be a volume related action later on. Certainly on the production side, we have the ability to scale our production capacity up and down based on future volumes.

Jon Raviv (Analyst - Citigroup):

Great. Thanks. Then, just following up on cash deployment. How would you characterize your M&A appetite at this point given where things are and especially as a relatively sizable potential helicopter asset could come to market?

Scott Donnelly (Chairman, CEO):

I would say that generally speaking on the M&A side the way we think about it is more along the lines of a lot of the deals we've done with TUG in ground support equipment, with our simulation businesses, with the Sherman and Reillys, that's the general scope of what we look at, transactions that are in that size that are very complementary built on to our existing businesses.

With respect to the reference you're making in the helicopter industry, I don't think there's probably too much to say about that. It's a process that's largely driven by that company, who's been pretty public about the fact that they're doing something. I'm sure we'll all see what they're going to do on their timeline, which I think they described as being sometime mid year.

Jon Raviv (Analyst - Citigroup):

Thank you.

Scott Donnelly (Chairman, CEO):

Sure.

Operator:

Our next question comes from the line of Ronald Epstein from Bank of America Merrill Lynch.

Ronald Epstein (Analyst - BofA Merrill Lynch):

Scott, just maybe backing up on the end of that last question, it seems like there's potential to do all kinds of M&A going forward. I mean, there might be some other properties in the market, even one in Wichita. Can you just remind us broadly what your thinking is about doing M&A at this point given the asset base that you already have?

Scott Donnelly (Chairman, CEO):

Ronald, we're quite open to M&A. We've done a fair bit of activity here over the last few years. We've been, generally speaking, very happy with the results. They've been very accretive to the Company.

We've been happy with what they've done in terms of strengthening in the market place. Clearly, that ranges from the Beechcrafts of the world, which for us is a very large deal, but we're really happy with how that's gone, both tactically and around cost and strategically where it positions the Company going forward.

As I said, we had a bunch of significantly smaller deals that we think have done really good things for our portfolio. They've helped strengthen the businesses that we have. They've put us into some exciting new spaces that are very complementary, like the simulation side of things. We've strengthened our utility side of our tool and test business. The TUG stuff on ground support, as I said earlier, has gone really, really well. We think that's a great space for us to be in, and it's performed very well.

We're open for business with that respect. There are things, obviously, that have to make a lot of sense for us. We're not just going out to try and do M&A for the sake of doing M&A. They have to be things that, in our view, fit with the portfolio and the strategy of the Company. As a result many things I think our investors would agree are the right places for us to deploy capital.

Ronald Epstein (Analyst - BofA Merrill Lynch):

Sure. Maybe just following up on one of those, the Mechtronix acquisition in the sims space, I mean, how is that going? Are you picking up share? How could you -- if you can give us color around that?

Scott Donnelly (Chairman, CEO):

Yes, it's going very well. We're very happy with it. The strength of that business, or the foundation of it, was more in the air transport side. As we said at the time we did the deals, we wanted to increase our exposure in aviation from just GA into the commercial civil airspace side of things, and we're really happy with it. We've had some big strategic wins, particularly with Boeing on the 737 MAX. We continue to execute well on that contract and pick up more simulators as they progress down in their program.

We have some other new platforms that we're investing in where we've had some wins that haven't been announced particularly yet that I think will continue to help position us as a very serious player in the air transport market.

Of course, we're leveraging those assets to help things like the V-280 we talked about. One of the issues around the V-280 with our army customer is, do you have the maneuverability and the capability that they're used to today with a more conventional helicopter?

And by taking the technology and the capability we have in the Company now and very quickly going out and building a very realistic, well-modeled simulator allows customers to get in there and go, wow, this thing does perform like a conventional rotorcraft. I think it's helping us in performing well tactically. Strategically, I think it's doing all the things that we hoped it would do.

Ronald Epstein (Analyst - BofA Merrill Lynch):

Okay. Great. Thanks.

Operator:

Our next question comes from the line of Robert Stallard from Royal Bank of Canada. Please go ahead.

Robert Stallard (Analyst - RBC Capital Markets):

Thanks so much. Good morning.

Scott Donnelly (Chairman, CEO):

Good morning.

Robert Stallard (Analyst - RBC Capital Markets):

To follow onto Ron's question, but from the other direction. It looks how we've seen a bit of M&A picking up in defense sector with people looking to put assets onto the market. I was wondering if you had any expressions of interest in some of your systems assets and what your criteria might be if you were looking to sell some things there?

Scott Donnelly (Chairman, CEO):

I guess I would say, no, we have not. Whatever it might be or would be would have to be something that we thought was in the best interest of our long-term shareholders and generate a lot of value.

Robert Stallard (Analyst - RBC Capital Markets):

Okay. Have you got any specific financial metrics, maybe, you might have in mind then?

Scott Donnelly (Chairman, CEO):

Nope.

Robert Stallard (Analyst - RBC Capital Markets):

Okay. Maybe on the aviation side, Scott, you mentioned the US market for Cessnas being pretty good. I was wondering if you could maybe give us some an idea of what end markets have been better or maybe worse? Have you seen any impact in the slowdown in energy, for example?

Scott Donnelly (Chairman, CEO):

I'm sorry. Slow down in what, Robert?

Frank Connor (CFO):

Energy.

Scott Donnelly (Chairman, CEO):

Oh, energy. No, I don't know how much color I can give you on that. It's been pretty broad based. Obviously, our Citation customer base is, for the most part, small- to mid-sized businesses, lots of privately-held companies, and it's pretty well across that whole normal spectrum of our kind of customers.

We always see rotations in the industry, whether energy is doing something, real estate right now is pretty strong, construction, these are -- it's a pretty broad base of industries. I don't know that I could really give you any color, specifically, this quarter as to which ones are more active than others.

Robert Stallard (Analyst - RBC Capital Markets):

What about maybe on the charts or the fractional side, has there been any improvement there?

Scott Donnelly (Chairman, CEO):

We haven't had a fractional aircraft sale in, I think, the seven years I've been here. It's been since 2008. In terms of new aircraft into the fractional, obviously some of our current fractional customers are selling aircraft as they roll off the deals from previous customers, so there's an aftermarket out there, but there's nothing new that we're selling into the fractional right now.

We have had a fair bit of closed charter operation, obviously, Wheels Up has been a big customer of King Airs and has put some used XLSs into it, but that's probably the sum total of what I see going on, in terms of our sales, directly into the fractional or charter market.

Robert Stallard (Analyst - RBC Capital Markets):

Thanks.

Scott Donnelly (Chairman, CEO):

Now, we hope to see that change, obviously. The NetJet guys have selected the Latitude as their mid-sized platform. And with that product now getting to certification, there's an awful lot of activity between ourselves and NetJets on how we help market and take that product into the fractional markets.

I think we have some significant upside in terms of fractional. NetJet, obviously, is a very powerful player in that end market, and the fact that they chose Latitude as their mid-sized platform I think will be a big boost to us.

Robert Stallard (Analyst - RBC Capital Markets):

Thanks, Scott.

Operator:

Thank you. Our next question comes from the line of Steve Levenson from Stifel. Please go ahead.

Steve Levenson (Analyst - Stifel Nicolaus and Company):

Thanks. Good morning, everybody.

Scott Donnelly (Chairman, CEO):

Morning, Stephen.

Steve Levenson (Analyst - Stifel Nicolaus and Company):

Could you give us an update, please, on Scorpion and maybe a little bit more on international interest for that plane as well as V-22?

Scott Donnelly (Chairman, CEO):

Sure, so Scorpion, the program is progressing very, very well. We've got a ton of flight hours. It's been a very busy test and demonstration program. The aircraft is performing extremely well. As I think we've mentioned before, there's a couple things, as we went through the test program, that we felt we would modify when we went into the full-grade production.

We've had an engineering team that's been incorporating all those changes, and we're getting ready to undertake a build of what would be the conforming aircraft ready to go into certification, testing and production.

In terms of the technical side of the program, I'd say it's going very well. In terms of the business development side, we have a number of customers that are ongoing conversations around the aircraft and have seen the aircraft. There's, what I would call, normal business development activity. Those processes tend to take a while, because, as you can imagine, they're government sales and so budgeting and evaluation and whatnot is -- they take their normal course. But there's a number of conversations going on.

In terms of things like V-22, you've seen the Japanese deal has been announced. It's been budgeted. There's

detailed negotiations, and we're hopeful that sometime this summer that will actually be under contract.

They've already budgeted, I think, the first five aircraft of a total of, I believe, 19 that they are talking about, and so I think that program is progressing well. There's a number of other customers for which there are active discussions underway, so I think, combined with the COD announcement as well as those activities, I think we got a very strong future on V-22s.

The only issue for us is just the timing of getting these things through the -- getting them under contract and getting them into the production process. The unfortunate side is it's probably not a material impact to us until the late teens as opposed to something that would help us out next year, just given how long it takes to get them under contract and get it going.

Steve Levenson (Analyst - Stifel Nicolaus and Company):

Got it. Thank you very much for the color.

Doug Wilburne (VP - IR):

Dan, I think that we're a little bit over time here, so we'll take one last call here that's still in queue, and then call it a day.

Operator:

Thank you, sir. Our last question for today comes from the line of Justin Bergner from Gabelli & Company. Please go ahead.

Justin Bergner (Analyst - Gabelli and Company):

Good morning, everyone.

Scott Donnelly (Chairman, CEO):

Morning.

Justin Bergner (Analyst - Gabelli and Company):

My one question which remains after all the other questions have been answered is with respect to Bell and commercial mix, will that weigh on margins even after the cost reductions that are being taken are completed? Or do you expect you'll be able to offset the mix headwinds as well?

Scott Donnelly (Chairman, CEO):

I would say that on the -- as you look through the course of the year, again, what's typical for us is that we'll see not only overall higher volume through the balance of the year, but we'll see a higher mix of 412s as we move through the year. That's what really drives that quarterly progression of margin rate through the balance of the year. That would be true across all of our platforms, frankly.

As you look at the cost savings associated with the restructuring that we're doing, that really manifests itself in overall manufacturing rates and overhead rates, and so the costs and/or benefits associated with that are spread across all of our commercial and military product lines. The underlying mix and volume, which will increase the course of the year, is really what drives that incremental margin rate.

Justin Bergner (Analyst - Gabelli and Company):

Okay. But you don't expect an ongoing mix headwinds as we look out to next year and the following years?

Scott Donnelly (Chairman, CEO):

No, not at this time. I would expect that we will just see our normal progression where we have higher volumes of 412s through the balance of the year.

Justin Bergner (Analyst - Gabelli and Company):

Thank you.

Doug Wilburne (VP - IR):

All right. Thank you, ladies and gentlemen.

Operator:

Ladies and gentlemen, this conference will be made available for replay after 10 AM Eastern time today until July 27, 2015 at midnight. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering in the access code 337219. International participants may dial 1-320-365-3844. For both numbers please use access code 337219.

That does conclude our conference for today.