SIM Equity Research Report
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Raytheon Technologies Corporation | Ticker: RTX

Price on 6/27/2024: $100.67
Target Price: $117.41 (19.14% upside)
Recommendation: **BUY**

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Company Description

Raytheon Technologies Corporation is the second-largest aerospace and defense contractor in the world that provides systems and services to commercial, military and government customers. It is comprised of three business units, Collins Aerospace, Pratt & Whitney and Raytheon which design and manufacture products to solve the biggest challenges in aerospace and defense.

Figure 1: RTX Stock Price LTM. Data from market close 6/27/2024.

Investment Thesis

A BUY rating is given for Raytheon Technologies Corp. Raytheon's position as one of the leading global defense contractors for the US government provides it with consistent, predictable pipeline and should lead to consistent growth as military spending continues to grow. Globally, defense sales are expected to continue to grow with geopolitical tensions continuing to rise and ongoing conflicts in Ukraine and Israel which rely heavily on Raytheon's advanced defense products.

Overview

Sector	Industrials
Industry	Aerospace and Defense
Market Cap	133.47B
Current Price	100.67
Target Price	117.41
Dividend Yield	2.51%
Total Projected Return	19.14%
52-week Range	$68.56 - 108.65
Diluted Shares Outstanding	1,401,175

In aerospace, there is room for significant upside as this segment produces higher margin products and sales are projected to grow at high teen rates for the next few years as older aircraft fleets age out or need upgrades. The powder paint issue that was discovered in Fall 2023 was the main reason for the significant stock drop, but the Pratt & Whitney business has moved quickly to address the issue and is expected to return to profitability in 2024.

Risks to Recommendation

- Unanticipated higher costs from 'powder metal matter' at Pratt & Whitney.
- Significant downturn in consumer spending that negatively impacts commercial air travel.
- Changes in US government defense spending or US government technology sharing restrictions.

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Company Overview & Business Segments

Company Overview

Raytheon Technologies Corporation is a global aerospace and defense systems provider of advanced technology products and services to customers in the commercial, military and government sectors. In the aerospace industry, they provide both original equipment and aftermarket parts and services to commercial and government customers. In the defense industry, they serve as a contractor for a broad portfolio of defense programs for both domestic and international military and government customers. Their primary strengths lie in their robust R&D capabilities, broad customer base, and expansive global footprint. RTX was founded in 1934 and is headquartered in Arlington, VA. It currently has a global employee population of 185,000 and operates more than 230 manufacturing facilities in 30 countries.

Business Segments

Collins Aerospace is a leading global provider of technologically advanced aerospace and defense products and aftermarket services for aircraft manufacturers, commercial airlines, and defense and commercial space operations. Collin's product offering is extensive and covers almost every component of an aircraft. They design and manufacture aircraft systems that enable flight such as power generation, flight control, landing gear, navigation, and fire and ice protection (just to name a few) as well as nearly all interior cabin systems and components including waste management, oxygen systems, seating, food and beverage prep, and lavatories. Collins also provides connected aviation solutions through air traffic management solutions and worldwide data communication networks.

In addition to new components, Collins also offers aftermarket services which include spare parts, maintenance and repair, technical support, and fleet management solutions.

As shown in Figure 2, Collins represented 37% of RTX's revenue in 2023 and their largest commercial customers are Boeing and Airbus who represented 19% of sales in 2023.

Pratt & Whitney is one of the world's leading suppliers of aircraft engines. They design, manufacture and maintain families of engines for commercial, military and business jet customers. In addition, they provide fleet management, aftermarket maintenance, and overhaul services for all families of their engines.

One of Pratt & Whitney's strengths is their exclusive partnership agreements they enter in with their customers. Their PW1000G Geared engine family is the exclusive engine on Airbus' A320neo family of aircrafts and their PW800 engine was selected in 2016 to power all Gulfstream G400, G500 and G600 business jets. They also produce and sustain multiple engine fleets with the US Air Force, US Marine Corps' and US Navy such as the F-35 fighter jet engine, the largest military program in history, which it is the sole engine provider for.

In 2023, they did discover a defect in the powder metal on one of their largest engine fleets, the GTF, which requires accelerated inspections and repairs to engines manufactured from 2015 to

2021. This had a significant cost impact on the business and will be discussed further in the 'Issues Influencing the Stock' section.

Pratt & Whitney represented 26% of RTX's revenue in 2023 and their largest commercial customer is Airbus who represented 43% of sales.

Raytheon is a leading provider in defensive and offensive threat detection technology for the US and other foreign governments as well as commercial customers. They design, develop, and provide an array of smart weapons, missiles, sensor and radars, and missile defense systems that can protect against land, sea, air and space threats. The company produces many of the products we hear about in the news today such as the Javelin and Patriot air and missile defense system while also being a leader in research and development of next generation technologies including hypersonics, next-generation radars, and advanced electro-optical/infrared sensors.

They are a major subcontractor for US Department of Defense and currently manage thousands of programs spanning every military and defense branch of the government.

Raytheon represented 37% of RTX's revenue in 2023 and their largest customer is the US government who represented 43% of sales in 2023.

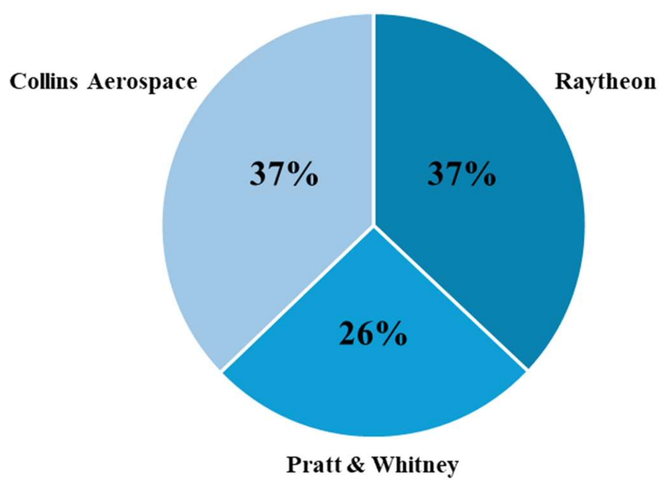

Figure 2: Revenue Percentage by Business Segment

Competitive Advantages

<u>Geographical Presence</u>

RTX has a large global presence and operates in North America, South America, Europe, Asia, and Africa. They have more than 230 manufacturing facilities that operate in 30 countries and they have offices in another 10. This scale enables RTX's business segments to support customers on a global scale and having a local presence in so many regions enables it to capitalize on increased demand for products easier than its competition. Their size also gives them significant purchasing leverage with suppliers.

Customer Base

All RTX business segments have significant sales with the US government and their spending is not correlated to economic trends so it provides steady revenue year over year. Over the last three years, the US government has accounted for 46% of RTX revenue and US government spending is expected to grow 37% in 2024 alone. While heavily weighted, these sales are spread across thousands of government programs, so RTX is still well diversified within the US government. RTX also provides services for foreign governments as well, so it is not solely dependent on the US.

Collins and Pratt & Whitney are much more commercially focused as they supply products and services to all commercial airline manufacturers and customers. Their customer base is very diversified, so they are not heavily dependent on a limited number of customers and this allows them to maintain strong sales globally even if certain regions have downturns. They also count the two largest commercial aircraft manufacturers, Boeing and Airbus, as two of their largest customers (30% of revenues) and have long-term contracts with both. As commercial air travel continues to grow, and demand for more planes increases, the demand for Collins and Pratt & Whitney's products and services will also grow.

R&D

RTX places a strong emphasis on R&D as shown by its 4% annual revenue spending and 57,000 engineers that it employs. This investment enables it to develop the innovative products that differentiate itself from the competition. These complex, technologically advanced products are highly sought after by their customers, especially in the defense space as governments try to arm themselves with the latest and greatest technologies. The added benefit is that these highly complex products and systems are not easily replaced or replicated so there is a high barrier for substitutes once installed. This provides a wide moat for all three business segments.

Market Outlook

The US government spent $916 billion on military expenses in 2023 which is the highest in the world by a wide margin as shown in Figure 2. Raytheon's US government sales were $31.63 billion which is only 3% of defense spending. There is opportunity to increase market share, but even maintaining market share as US defense spending continues to rise will see Raytheon's revenues climb. In 2024, the US defense budget is $2.08 trillion, a 37% increase from 2023.

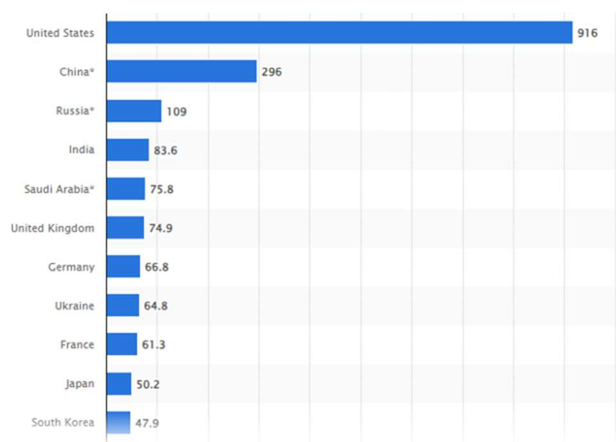

Figure 2: Countries with the highest military spending worldwide (2023)

The global military aircraft and aerospace manufacturing industry had revenues of $316.6 billion in 2023 and is expected to have a CAGR of 2.8% over the next five years. This is driven by emerging countries who are growing their military spending as well as rapid growth in China and

India. The United States is also planning a major aircraft modernization program that will see increased spending for fighter jets, bombers, and UAVs. Raytheon's global footprint and strong ties to the US government puts it in a great position to capitalize on this growth.

The global commercial aircraft manufacturing industry is also expecting strong growth as it expected to grow from $316.1 billion to $371.2 billion, a 3.3% CAGR, over the next five years. Similar to the military aircraft market, this growth is largely driven by emerging economies and large fleet renewals which means aircraft production is expected to surge. Raytheon's global footprint will again allow it to grow as emerging economies grow, and it's strong existing relationships with Boeing and Airbus should position it well to capitalize on their anticipated increase in production.

Growth Drivers

For Collins Aerospace, the primary growth drivers are tied to growth in the global commercial aircraft industry. Revenues from Boeing and Airbus programs have grown as a percentage of total sales over the last three years, from 15% to 19%, so the company must continue to leverage these strong relationships into long-term contracts as the aircraft industry grows over the next few years. Collins also must continue to invest in sustainable technologies as the macro environment pushes for better efficiency and fewer greenhouse gas emissions. In addition, Collins needs to continue to strategically grow it's aftermarket support segment since this segment has high margins and aging aircraft fleets globally will increase their dependence on these services until they can be overhauled.

For Pratt & Whitney, the key for growth is to continue to grow their installed engine base since they also provide the service and maintenance for the lifetime of their engines. The contract they were awarded in 2016 with Airbus to power their A320 family of aircrafts as well as the A220 will continue to grow their installed fleet and they also have numerous ongoing contracts with the US government and other aircraft providers. To maintain their growth, they will need to continue to develop state-of-the-art engines like the GTF and find areas for improvement on their installed fleet. An example of this which is already ongoing is an improvement to the GTF engine program that will improve takeoff thrust by 8% and reduce fuel consumption by 1%.

For Raytheon, their sales are almost all tailored to government agencies. As defense spending continues to grow globally, Raytheon should also see their sales grow. They must continue to maintain their industry leading R&D capabilities since government defensive and offensive systems rely on advanced technology to maintain an advantage. Another opportunity for Raytheon to grow is expanding their offerings to foreign governments but given the highly classified nature of their products and systems they must first receive permission from the US before they can sell their services overseas. Additionally, as global tensions increase, and if the conflicts in Ukraine and Israel extend, Raytheon should see sales increase to meet demand and replenish the inventory of weapons that the US and other NATO countries are providing in support.

Issues Influencing the Stock

The main issue influencing RTX is the "Powder Metal Matter". In Q3 2023, Pratt & Whitney discovered a rare condition in the powder metal used in the manufacturing of certain engine parts. This condition required all components with the powder metal to be inspected ahead of plan and the engines to be removed from service until inspection and repair. This included roughly 1,300 Airbus A320 family of aircrafts. Due to this issue, Pratt & Whitney recorded an operating profit charge of $2.9 billion dollar to reflect the expected compensation owed to customers due to the disruption. It expects another $1.3 billion in 2024. However, these are just estimates as Pratt & Whitney is still performing shop visits to inspect the potential defective parts and diagnose what further actions need to be taken.

Another issue influencing RTX stock is the FAA production cap on Boeing 737 Max. With Boeing being one of Collins Aerospace's largest customers, this cap in production is also impacting its sales. The unknown duration that this cap will be held in place by the FAA also clouds projections for this large segment of Collins' business.

Recent News

In April, Raytheon broke ground on a $115 million, 26,000 square foot expansion to their Redstone Raytheon Missile Integration Facility to increase capacity for their defense programs by 50%. This project is expected to be completed in 2025 and gives an indication of the anticipated growth in their missile defense segment.

In May, Raytheon's CEO Greg Hayes stepped down after 10 years leading the company. This was an expected move, and the stock has not seen much change since new CEO Chris Calio took over but his performance, and investor's sentiment towards his vision for the company, is worth monitoring. Calio was previously RTX's chief operating officer.

On June 27th, Raytheon was selected to design NASA's Landsat Next's space instruments. This technology is used to collect images of earth to track natural and human-induced changes and the contract is worth $506 million.

Investment Thesis

Fundamental Drivers

The outlook for Raytheon, and the fundamental factors that will determine if the business meets its forecasted future targets, are based on three factors: powder metal matter recovery, sustainable demand in the government sector, and sustained growth and margin expansion in the commercial aerospace industry.

Powder metal matter recovery

The powder metal defect discovered in 2023 raised red flags about potential quality controls issues within Pratt & Whitney and caused the stock to drop 22% from August to October last year. However, Raytheon's proactive approach and revenue growth in Collins Aerospace and Pratt & Whitney, 23% and 9% respectively, has enabled the stock to recover and it is currently trading slightly above the $96.21 price prior to the incident. Raytheon needs to continue to diligently work through a resolution for the defect, but the required inspections are not expected to be completed until 2026. Raytheon needs to ensure similar incidents are avoided by putting better quality control measures in place, but per the company Q1 update implementation of these measures are on schedule and no further expansion of the scope of the issue is expected.

Sustainable demand in the government sector

The US government along represents 46% of Raytheon's sales but is spread across thousands of different programs. Spending in this sector is non-cyclical and has grown at a steady rate over the last 20 years as shown in Figure 4. Raytheon is well-entrenched with many of these programs, and the high substitution costs mean they are well insulated from competition until the programs are completed. Even after completion, the cost of changing over technologies is very expensive and most often customers will decide to continue with the current provider. Raytheon's prowess in research and development should help maintain these long-term relationships and their focus on moving away from fixed rate contracts to something more favorable should insulate them from inflationary pressures that arise in the future. The ongoing conflicts in Ukraine and Israel could present potential upside should those escalate, and the ongoing tensions with China could also provide potential tailwinds if military activity increases.

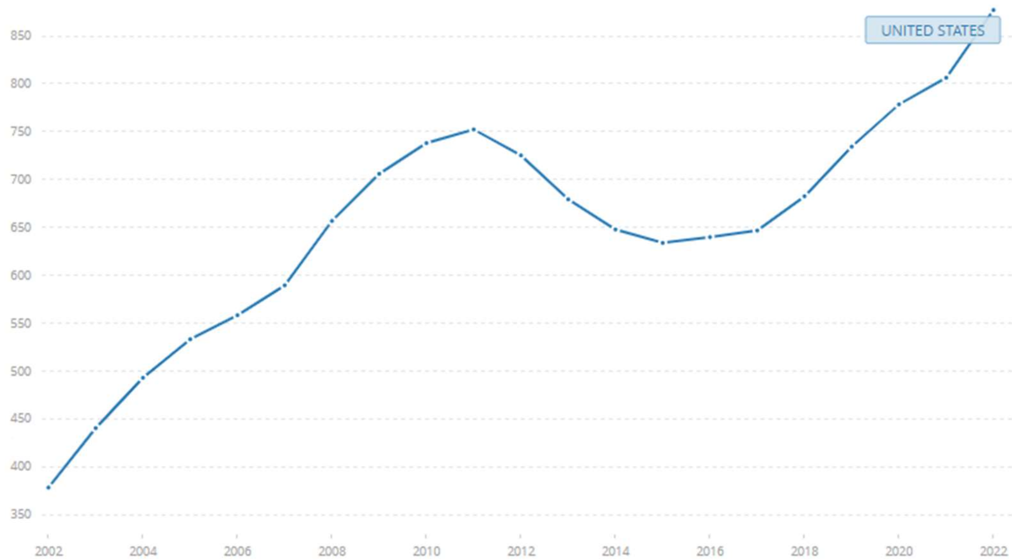

Figure 4: US Government Defense Spending 2002-2022

In addition, Raytheon supplies numerous products and services to NATO governments. In 2014 only three NATO countries met their 2% GDP defense spending, but that number is expected reach 23 countries in 2024. If this trend continues, and Raytheon is successful in petitioning the US government to expand their product offerings to these countries, then revenues and profits will increase outside of current expectations.

Sustained growth and margin expansion in the commercial aerospace industry

Collins and Pratt & Whitney are forecasted to have high-single digit and low double digit revenue growth respectively in 2024 largely due the forecasted growth in the commercial aerospace industry. As both manufacturers and service providers for the commercial aerospace industry these companies should benefit from the increased volume of new aircrafts as well as the growing volume of older aircraft fleets. Once installed, there is a very high switching cost given the highly technical and specialized nature for the products both Collins and Pratt & Whitney provide. This benefits both companies as fleets with their installed products begin to age out since the aftermarket products and maintenance services are higher margin and cannot be replaced with substitutes. Both companies are already seeing increased revenues and improved margins from aftermarket products and services, and as their installed fleet volume increases their future revenues and margins will also increase. Both companies' Q1 results positively enforced these projections. Collins saw Y-o-Y increases in revenues and margin of 9% and 16% respectively with sales in the commercial aftermarket driving the gains at 14% Y-o-Y. Pratt & Whitney saw 23% revenue growth Y-o-Y. Margins for Pratt & Whitney were positive but 1% lower than in Q1 2023. This is largely due to the ongoing costs associated with the powder metal problem but those costs should decrease over time allowing margins to expand.

Economic Conditions

Inflation

Many of the long-term government contracts are fixed price contracts. If inflation continues to rise the prices for components, labor and supplier costs will also rise. This means the margins on Raytheon's end products will continue to erode since they are often unable to increase their prices to recoup the additional costs. Raytheon has made significant strides in reducing the volume of fixed price contracts, but it is still prominent with US government contracts. Inflation also has a negative impact on Raytheon's financing since it negatively impacts the Federal Reserve interest rates. Raytheon is historically a highly leveraged company and higher interest rates for capital expenditures could negatively impact the company. At the beginning of the year the Fed was expected to make 2-3 rate cuts from the current 5.25-5.5% rate, but no rate cuts have been made and the prospect of even one rate cut in 2024 is seemingly diminishing by the month. Higher interest rates also negatively impact Raytheon's suppliers, who often must take out financing to make the high-volume purchases required to keep up with demand.

US Elections

The upcoming US elections could have a significant impact on Raytheon's business. With 46% of revenues coming from US government funded programs Raytheon's performance is highly correlated to government defense spending. Should there be a presidential change, or significant change in congress or the senate, that results in a review and reduction of defense spending then Raytheon's business performance could take a significant hit. Another challenge, as we have already seen this year, is if congress is unable to pass spending bills leading to a government shutdown or supplementary bills that maintain current spending limits. All these factors would negatively impact the growth projections for Raytheon based on increased government defense spending.

Consumer Spending/Sentiment

The commercial aerospace industry is a very cyclical industry and is highly correlated with consumer spending/sentiment. The industry is currently experiencing record customer volume, and most experts anticipate this trend to continue globally over the next five years. Given Raytheon's global footprint it is well insulated to isolated decreases in consumer spending. However, should there be a recession or other macro events such as another Covid 19 pandemic where consumer spending significantly declines then the commercial aerospace industry will also see steep declines which will negatively impact Raytheon's business.

Financials

Raytheon took a bit of a step back in 2023 due to the powder metal matter, but as shown in our income statement forecast, included as Appendix 1, we forecast them to get back on track in 2024 and to continue to grow both top and bottom line over the next three years. As shown in Table 1, the analyst consensus has revenues growing at an average annual rate of 7.7% per year.

We are slightly less bullish in our sales forecast given some headwinds in the commercial aerospace sector and the continued concerns for customer spending contraction.

Table 1: Raytheon Revenue Forecast

(dollars in millions)	FY 2026E	FY 2025E	FY 2024E	FY 2023
Consensus	***88,560***	***83,890***	***79,080***	
Net Sales				
Collins Aerospace	**32,576**	**30,588**	**28,721**	**26,253**
Pratt & Whitney	**24,445**	**22,718**	**21,114**	**18,296**
Raytheon	**31,520**	**30,019**	**28,590**	**26,350**
Total Segments	**88,541**	**83,325**	**78,424**	**70,899**

This revenue growth is expected to be coupled with larger growth in operating profits (9.15% annually) as costs and expenses are expected to decline relative to sales. This trend had already begun prior to 2023 but experienced a spike due to the powder metal matter discussed previously. We forecast margins to return to and exceed FY2022 and FY2021 levels given the favorable product mix with Collins and Pratt & Whitney and their growing aftermarket sales combined with relief from unfavorable fixed-price contracts at Raytheon.

RTX also executed a $10.3 billion share repurchase in December 2023 and is expected to continue to strategically buy back shares over the next few years. This results in EPS forecasts of $4.37, $4.95 and $5.60 which are aligned with the consensus industry projections as shown in Table 2.

Table 2: Raytheon EPS 3-Year Forecast

	FY 2026E	FY 2025E	FY 2024E
EPS			
Basic	**5.64**	**4.98**	**4.40**
Diluted	**5.60**	**4.95**	**4.37**
Consensus - GAAP	***5.68***	***4.95***	***4.38***

When examining the balance sheet data two main data points were investigated, debt and inventory levels. RTX had a significant amount of debt ($43.827 billion) and only $6.587 billion in cash at the end of 2023. The EY 2023 debt level represented a 38% from the previous year but much of this debt was long-term with an average repayment time of 13 years and $10 billion was taken out for share repurchases. Although significant, this signals management's strong belief in the upside of the stock price compared to where it was trading in December. So far in 2024 RTX has also paid down roughly $950 million of debts that were due and only has another $344 million in long-term debt currently due this year. Inventories have historically been around 15.7% of revenues but climbed to 17.1% at the end of 2023. Q1 showed inventories continue to climb to 12.39 billion but this is still in line with the 15.7% historical average based on revenue projections for 2024. This may be a detail to monitor if inventory levels continue to rise through the rest of 2024.

Valuation and Price Target

To establish a price target for RTX, current valuation multiples were compared against its top competitors and a discounted cash flow model was created as shown in Appendix 2.

When comparing Raytheon Technologies to its competitors, as shown in Table 3, there are a few valuation ratios that really stand out. On a P/E basis, Raytheon's ratio was significantly higher than the rest of its competition. However, this is likely explained by the lower than historical earnings in 2023 which was largely impacted again by their own internal issue with the powder metal matter. When looking at P/CF and EV/EBITDA it is in line with its peers which implies it is undervalued given the underlying negative impacts from the powder metal matter to both ratios. On a P/S and P/B basis, Raytheon is significantly below its peers which is a further indication that it is undervalued in comparison since these ratios do the best job of removing the negative cost impacts from the equation.

Table 3: Aerospace & Defense Company Multiples

Ticker	P/E	P/S	P/B	P/CF	EV/ EBITDA
Raytheon Technologies Corp (RTX)	40.85	2.06	2.29	22.22	18.42
TransDigm Group (TDG)	51.27	10.18	-	35.19	25.70
General Dynamics (GD)	24.41	1.91	3.83	20.64	17.52
Lockheed Martin (LMT)	17.06	1.66	16.76	13.96	12.40
Northrop Grumman (NOC)	32.72	1.77	4.90	16.91	18.99
Average	33.26	3.52	6.95	21.78	18.61

The DCF forecast, included as Appendix 2, provides additional support that the stock is undervalued and estimates the stock's target price to be $117.41 per share which implies a 16.6% upside without factoring in the current 2.51% dividend yield.

Revenues are expected to continue to grow but taper off to 3.5% over the next ten years. RTX is already a large, mature business that has exposure in both non-cyclical (defense) and cyclical (commercial aerospace) sectors so while steady growth is expected in the defense segment, it is not likely that the commercial aerospace sector will maintain the current growth projects considering we are already in the late stage of the business cycle. As discussed previously, margins are expected to continue to grow at a moderate rate as aftermarket sales continue to increase and low margin fixed-rate government contracts are ended or renegotiated.

The projected terminal free cash flow growth is 3.5% which is in line with a company of RTX's size and business mix. The terminal discount rate is set at 8.2% based on industry analyst estimates and validation by our model.

Risks to Recommendation

Additional Powder Metal Matter Challenges

As we have discussed throughout this report, the powder metal matter had a negative $2.9 billion impact on Raytheon's 2023 performance, and it is forecasted to cost the company another $1.3 billion in 2024. However, the remediation is not expected to be completed until 2026. This leaves a significant timeline for additional expenses to be incurred, especially since inspections are still ongoing and it is unclear on how many of the 1,300 effected GTF engines have been inspected and repaired to date. Raytheon's management has said they are on-target with anticipated shop visits for inspections this year but admittedly in the Q1 2024 10-Q that the current projected cost impact for 2024 is based on historical date but the costs this year and beyond could be significantly affected as more inspections are completed and the extent of the repairs determined.

Unfavorable Changes in Consumer Spending and Sentiment

The commercial aerospace industry is historically cyclical and highly dependent on consumer spending and sentiment given travel for leisure's discretionary nature. The industry is currently experiencing historic highs in travel volume and that trend is expected to continue over the coming years. However, a recession in the US is still a possibility and inflation continues to push prices upwards on non-discretionary expenses for consumers. Should the consumer continue to feel their wallets shrunk by necessary household products then discretionary spending on travel could fall resulting in less demand for new aircrafts.

Changes in US Government Spending or Policy

With 43% of revenues coming from the US government, Raytheon's business performance is highly correlated with US defense spending. The upcoming US elections bring an amount of uncertainty that his difficult to quantify but the results have the chance to negatively impact Raytheon's outlook in defense spending. Additionally, a change in government leadership also has the potential to hinder Raytheon's ability to share its proprietary technology with other foreign governments. There are many programs that require US approval before being sold to other countries and any policy changes that reduce RTX's ability to sell outside of the US will have an adverse effect on the business.

Conclusion

Although Raytheon's business took a significant hit in 2023 due to the powder metal matter, the company has been able to recover quickly and is expected to reach record sales over the next three years. At the same time, operating margins are also expected to continue to expand over the same time period due to increased aftermarket sales in Collins and continued efforts to reduce liabilities from fixed-price contracts.

Government defense spending is a steady non-cyclical industry that provides consistent sales for RTX. Defense spending has reversed it's downward trend in the last few years and is expected to continue to grow. The US government, RTX's largest customer, has the largest defense budget globally and other NATO countries are also increasing their spending to defend against growing geopolitical tensions in Russia and China.

The commercial aerospace industry, although cyclical in nature, will also continue to grow while travel demand remains high in mature countries and as developing countries like India continue to grow demand.

On a multiples basis, RTX is valued significantly below its peers when comparing the P/S and P/B which suggest it is currently undervalued in the aerospace and defense industry.

Taking all of these factors into account, our target price for Raytheon Technologies' is $117.61 which represents a 19.14% upside when compared to the current stock price of $100.67. This represents a BUY rating.

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Appendix

Appendix 1: Income Statement Model

Raytheon Technologies Corp. (RTX)

(dollars in millions, except per share amounts; shares in millions)	FY 2026E	FY 2025E	FY 2024E	FY 2023	FY 2022	FY 2021	FY 2020
Consensus	*88,560*	*83,890*	*79,080*				
Net Sales							
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Pratt & Whitney	24,445	22,718	21,114	18,296	20,530	18,150	16,799
Raytheon	31,520	30,019	28,590	26,350	25,176	30,719	22,465
Total Segments	88,541	83,325	78,424	70,899	68,758	67,318	58,552
Eliminations and other	(2,125)	(2,083)	(2,039)	(1,979)	(1,684)	(2,930)	(1,965)
Consolidated	86,416	81,242	76,385	68,920	67,074	64,388	56,587
Costs and Expenses							
Cost of sales	68,355	64,506	60,879	56,831	53,406	51,897	48,056
Research and development	3,370	3,168	2,979	2,805	2,711	2,732	2,582
Selling, general and administrative	6,654	6,256	5,882	5,809	5,573	5,224	5,540
Total Costs and Expenses	78,379	73,930	69,740	65,445	61,690	59,853	56,178
Goodwill impairment	-	-	-	-	-	-	(3,183)
Other Income (expense), net	130	122	115	86	120	423	885
Operating profit (loss)	8,166	7,434	6,760	3,561	5,504	4,958	(1,889)
Non-service pension income	(2,333)	(2,194)	(2,062)	(1,780)	(1,889)	(1,944)	(902)
Debt extinguishment costs	-	-	-	-	-	649	-
Interest expense, net	1,728	1,625	1,528	1,505	1,276	1,322	1,366
Income from continuing operations before income taxes	8,771	8,002	7,295	3,836	6,117	4,931	(2,353)
Income tax expense	1,193	1,088	992	456	790	786	575
Net income from continuing operations	7,578	6,914	6,303	3,380	5,327	4,145	(2,928)
Less: Noncontrolling interest in subsidiaries' earnings fromm continuing operations	259	244	229	185	111	248	181
Net income from continuing operations attributable to common shareowners	7,319	6,670	6,074	3,195	5,216	3,897	(3,109)
Loss from discontinued operations attributable to common shareowners	-	-	-	-	(19)	(33)	(367)
Net income attributable to common shareowners	7,319	6,670	6,074	3,195	5,197	3,864	(3,476)
Earnings (loss) Per Share attributable to common shareowners - Basic:							
Income from continuing operations	$ 5.64	$ 4.98	$ 4.40	$ 2.24	$ 3.54	$ 2.60	$ (2.29)
Loss from discontinued operations	$ -			$ -	$ (0.02)	$ (0.03)	$ (0.30)
Net income attributable to common shareowners	$ 5.64	$ 4.98	$ 4.40	$ 2.24	$ 3.52	$ 2.57	$ (2.59)
Earnings (loss) Per Share attributable to common shareowners - Diluted:							
Income from continuing operations	$ 5.60	$ 4.95	$ 4.37	$ 2.23	$ 3.51	$ 2.58	$ (2.29)
Loss from discontinued operations	$ -	$ -	$ -	$ -	$ (0.01)	$ (0.02)	$ (0.30)
Net income attributable to common shareowners	$ 5.60	$ 4.95	$ 4.37	$ 2.23	$ 3.50	$ 2.56	$ (2.59)
Weighted Average Shares Outstanding							
Basic Shares	1,297.5	1,339.0	1,381.8	1,426.0	1,475.5	1,501.6	1,357.8
Diluted Shares	1,306.0	1,347.8	1,390.9	1,435.4	1,485.9	1,508.5	1,357.8
EPS							
Basic	5.64	4.98	4.40	2.24	3.52	2.57	(2.59)
Diluted	5.60	4.95	4.37	2.23	3.50	2.56	(2.59)
Consensus - GAAP	*5.68*	*4.95*	*4.38*				
Shares Outstanding							
Basic	1,297	1,339	1,382	1,426	1,476	1,502	1,358
Diluted	1,306	1,348	1,391	1,435	1,486	1,509	1,358
% buyback from prior year	-3.1%	-3.1%	-3.1%	-3.4%	-1.5%	11.1%	
Sales Ratios							
Collins Aerospace	6.5%	6.5%	9.4%	13.89%	24.95%	-4.35%	
Pratt & Whitney	7.6%	7.6%	15.4%	-10.88%	13.11%	8.04%	
Raytheon	5.0%	5.0%	8.5%	4.66%	-18.04%	36.74%	
Eliminations and other	-2.4%	-2.5%	-2.6%	-2.79%	-2.45%	-4.35%	-3.36%
Expenses as % of Sales							
Cost of sales	79.1%	79.4%	79.7%	82.46%	79.62%	80.60%	84.92%
Research and development	3.9%	3.9%	3.9%	4.07%	4.04%	4.24%	4.56%
Selling, general and administrative	7.7%	7.7%	7.7%	8.43%	8.31%	8.11%	9.79%
Other Income (expense), net	0.15%	0.15%	0.15%	0.12%	0.18%	0.66%	1.56%
Operating Profit	9.45%	9.15%	8.85%	5.17%	8.21%	7.70%	-3.34%
Non-service pension income	-2.7%	-2.7%	-2.7%	-2.58%	-2.82%	-3.02%	-1.59%
Debt extinguishment costs	0.0%	0.0%	0.0%	0.00%	0.00%	1.01%	0.00%
Interest expense, net	2.0%	2.0%	2.0%	2.18%	1.90%	2.05%	2.41%
Less: Noncontrolling interest in subsidiaries' earnings form continuing operations	0.3%	0.3%	0.3%	0.27%	0.17%	0.39%	0.32%
Tax Rate	13.6%	13.6%	13.6%	11.9%	12.9%	15.9%	-24.4%
Balance Sheet Items							
D&A	5,271	4,956	4,659	4,211	4,108	4,557	4,156
% of Sales	6.1%	6.1%	6.1%	6.1%	6.1%	7.1%	7.3%
CapEx	(2,938)	(2,762)	(2,597)	(2,415)	(2,288)	(2,134)	(1,795)
% of Sales	-3.4%	-3.4%	-3.4%	-3.5%	-3.4%	-3.3%	-3.2%
Receivables	12,790	12,024	11,305	10,838	9,108	9,661	9,254
% of Sales	14.8%	14.8%	14.8%	15.7%	13.6%	15.0%	16.4%
Inventory	13,567	12,755	11,992	11,777	10,617	9,178	9,411
% of Sales	15.7%	15.7%	15.7%	17.1%	15.8%	14.3%	16.6%
Payables	12,617	11,861	11,152	10,698	9,896	8,751	8,639
% of Sales	14.6%	14.6%	14.6%	15.5%	14.8%	13.6%	15.3%
Change in WC	(823)	(772)	(228)	(2,088)	259	(62)	

Appendix 2: Discounted Cash Flow Model

Raytheon Technologies Corp. (RTX)

Analyst: Brian McClure
6/27/2024
(dollars in millions, except per share amounts)

Terminal Discount Rate = 8.2%
Terminal FCF Growth = 3.5%

Year	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue (millions)	76,385	81,242	86,416	91,601	96,639	101,471	106,037	110,384	114,469	118,475	122,622
% Growth		6.4%	6.4%	6.0%	5.5%	5.0%	4.5%	4.1%	3.7%	3.5%	3.5%
Operating profit (loss)	6,760	7,434	8,166	8,931	9,422	10,198	10,657	11,425	11,848	12,618	13,059
Operating Margin	8.85%	9.15%	9.45%	9.75%	9.75%	10.05%	10.05%	10.35%	10.35%	10.65%	10.65%
Non-service pension income	(2,062)	(2,194)	(2,333)	(2,473)	(2,609)	(2,740)	(2,863)	(2,980)	(3,091)	(3,199)	(3,311)
% of Sales	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%
Interest expense, net	1,528	1,625	1,728	1,832	1,933	2,029	2,121	2,208	2,289	2,370	2,452
% of Sales	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Income from continuing operations before income taxes	7,295	8,002	8,771	9,572	10,099	10,908	11,399	12,197	12,649	13,447	13,918
Income tax expense	992	1,088	1,193	1,302	1,373	1,484	1,550	1,659	1,720	1,829	1,893
Tax Rate	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
Net income from continuing operations	6,303	6,914	7,578	8,270	8,725	9,425	9,849	10,539	10,929	11,618	12,025
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	229	244	259	275	290	304	318	331	343	355	368
% of Revs	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Net Income	**6,074**	**6,670**	**7,319**	**7,996**	**8,435**	**9,120**	**9,531**	**10,207**	**10,585**	**11,263**	**11,657**
% Growth		9.8%	9.7%	9.2%	5.5%	8.1%	4.5%	7.1%	3.7%	6.4%	3.5%
Add Depreciation/Amort	4,659	4,956	5,271	5,313	5,218	5,175	5,090	4,857	4,693	4,384	4,169
% of Sales	6.1%	6.1%	6.1%	5.8%	5.4%	5.1%	4.8%	4.4%	4.1%	3.7%	3.4%
Plus/(minus) Changes WC	(228)	(772)	(823)	(872)	(920)	(966)	(1,009)	(1,051)	(1,090)	(1,128)	(1,167)
% of Sales	-0.3%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Subtract Cap Ex	2,597	2,762	2,938	3,114	3,286	3,450	3,605	3,753	3,892	4,028	4,169
Capex % of sales	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Free Cash Flow	**7,908**	**8,092**	**8,830**	**9,322**	**9,448**	**9,879**	**10,006**	**10,260**	**10,297**	**10,490**	**10,490**
% Growth		2.3%	9.1%	5.6%	1.4%	4.6%	1.3%	2.5%	0.4%	1.9%	0.0%

NPV of Cash Flows	**63,492**	38%	
NPV of terminal value	**105,034**	62%	
Projected Equity Value	**168,526**	100%	
Free Cash Flow Yield	**5.47%**		
Current P/E	**23.8**	**21.7**	**19.7**
Projected P/E	*27.7*	*25.3*	*23.0*
Current EV/EBITDA	**15.9**	**14.7**	**13.5**
Projected EV/EBITDA	*18.0*	*16.6*	*15.3*
Shares Outstanding	1,435		
Current Price	$ 100.67		
Implied equity value/share	$ 117.41		
Upside/(Downside) to DCF	16.6%		
Debt	43,827		
Cash	6,587		
Cash/share	4.59		

Terminal Value	**230,994**
Free Cash Yield	**4.54%**
Terminal P/E	**19.8**
Terminal EV/EBITDA	**15.6**

Consensus Analyst Price Target (ANR)
$115-121