



# Raytheon Technologies Corp. (RTX)

Updated July 27<sup>th</sup>, 2024, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$114	<b>5 Year CAGR Estimate:</b>	4.8%	<b>Market Cap:</b>	\$151 B
<b>Fair Value Price:</b>	\$92	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/16/24
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Dividend Payment Date:</b>	09/05/24
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$129	<b>Years Of Dividend Growth:</b>	30
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Raytheon Technologies (RTX) was created on April 3<sup>rd</sup>, 2020, after the completion of the merger between Raytheon (previous ticker: RTN) and United Technologies (previous ticker: UTX), following United Technologies' spin-offs of its Carrier (CARR) and Otis (OTIS) businesses. The combined business, trading with a \$151 billion market cap and headquartered in Waltham, MA, is one of the largest aerospace and defense companies in the world with ~\$79 billion in annual sales and a global team of 182,000 employees, including 60,000 engineers and scientists. The company now has three segments: Collins Aerospace Systems, Pratt & Whitney, and Raytheon, which is composed of the former Raytheon Intelligence & Space and Raytheon Missiles & Defense businesses.

On May 2<sup>nd</sup>, 2024, Raytheon Technologies increased its quarterly dividend 6.3% to \$0.63.

On July 25<sup>th</sup>, 2024, Raytheon Technologies announced second quarter results for the period ending June 30<sup>th</sup>, 2024. For the quarter, revenue grew 7.5% to \$19.8 billion, which beat estimates by \$520 million. Adjusted earnings-per-share of \$1.41 compared to \$1.29 in the prior year and was \$0.11 better than expected.

The prior quarters had seen significant impairments from the manufacturing defect in some jet engines produced by the Pratt & Whitney segment. That is largely behind the company now. Organic sales grew 10% for the period. For the quarter, organic revenue was higher by 19%, 10%, and 4% for the Pratt & Whitney, Collins Aerospace, and Raytheon segments, respectively. Raytheon Technologies' backlog at the end of the quarter was a new record \$206 billion, compared to \$202 billion in the first quarter of 2024, of which \$129 billion was from commercial aerospace and \$77 billion was from defense. The company's Q2 book-to-bill ratio was 1.25.

Raytheon Technologies provided updated guidance for 2024, with the company now expecting sales of \$78.75 billion to \$79.5 billion for the year, up from \$78 to \$79 billion previously. Adjusted earnings-per-share is now projected to be in a range of \$5.35 to \$5.45, up from \$5.25 to \$5.40 previously. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$2.73	\$4.27	\$4.78	\$5.06	<b>\$5.40</b>	<b>\$7.57</b>
<b>DPS</b>	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$2.16	\$2.01	\$2.16	\$2.36	<b>\$2.52</b>	<b>\$3.53</b>
<b>Shares<sup>1</sup></b>	909	838	809	799	861	864	1,515	1,509	1,476	1,362	<b>1,342</b>	<b>1,310</b>

Note that we have elected to show United Technologies' history through 2019, as ~57% of the new business is now owned by legacy UTX shareholders. However, the company is much different today with the merger and spin-offs. With that being said, both United Technologies and Raytheon have put together solid operating records. In the last decade the company's earnings-per-share fell by an average rate of 3.3%, though this is misleading due to the spinoff. Moving forward, we anticipate solid growth to continue, forecasting 7% growth over the intermediate term. This takes into account the strong history of the underlying operating businesses, along with the idea of growth becoming more difficult given the size of the business along with the recent uncertainty related to the worldwide COVID-19 pandemic. The company has raised its dividend for 30 years.

<sup>1</sup> In millions.

Disclosure: This analyst has a long position in the security discussed in this research report.



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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	17.0	15.3	17.7	16.8	16.1	22.0	18.4	21.1	16.6	<b>21.1</b>	<b>17.0</b>
Avg. Yld.	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.1%	2.8%	<b>2.2%</b>	<b>2.7%</b>

Shares of Raytheon Technologies have increased \$12, or 11.8%, since our April 23<sup>rd</sup>, 2024 update. The stock has traded with an average P/E ratio of close to 18 times earnings over the past decade. We believe fair value to be closer to 17 times earnings, up from 16 previously. With shares trading at 21.1 times estimated earnings, this implies a valuation headwind. Reverting to our target valuation would reduce annual returns by 4.2% through 2029.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

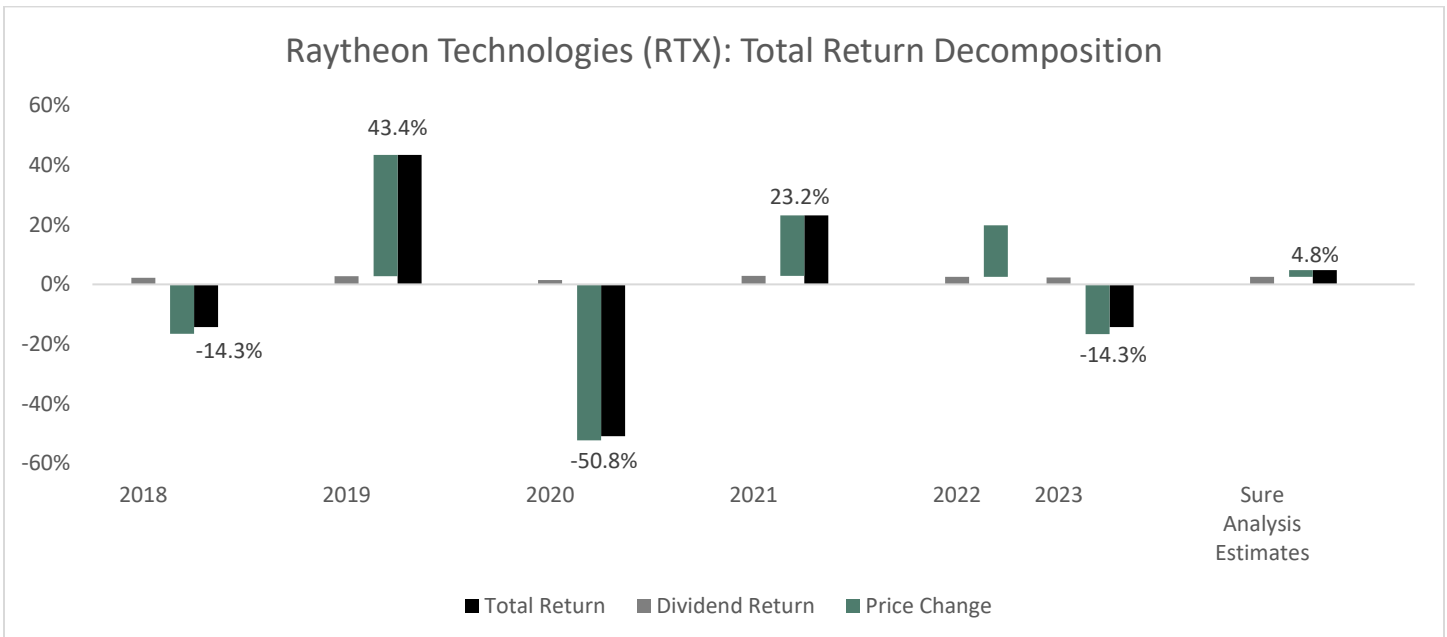
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35%	41%	40%	41%	37%	36%	79%	47%	45%	47%	<b>47%</b>	<b>47%</b>

Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting \$4.90, \$4.12, \$4.74, and \$5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept increasing their dividends during this period. As of Q2 2024, Raytheon Technologies held \$6.0 billion in cash, \$49.2 billion in current assets, and \$161.2 billion in total assets against \$49.6 billion in current liabilities and \$100.5 billion in total liabilities. Long-term debt stood at \$40.3 billion.

## Final Thoughts & Recommendation

We continue to be enthused on a number of fronts about Raytheon Technologies, including the storied histories of the combined companies, the resilient businesses, and the tremendous backlog. The impact of the Pratt engine defect negatively impacted results last year, but that appears to be behind the company. We are forecasting annual total returns of 4.8% through 2029, down from 5.6% previously. Our forecast stems from a 7% growth rate and a 2.2% dividend yield, offset by a low single-digit headwind from multiple compression. We have raised our five-year price target \$9 to \$129 and continue to rate shares of the company as a hold due to projected results.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	57,900	56,098	57,244	59,837	34,701	45,349	56,587	64,388	67,074	68,920
<b>Gross Profit</b>	17,002	15,667	15,773	15,636	7,236	10,751	8,531	12,491	13,668	12,089
<b>Gross Margin</b>	29.4%	27.9%	27.6%	26.1%	20.9%	23.7%	15.1%	19.4%	20.4%	17.5%
<b>SG&amp;A Exp.</b>	6,172	5,886	5,958	6,429	2,864	3,711	5,540	5,224	5,663	5,809
<b>D&amp;A Exp.</b>	1,820	1,863	1,962	2,140	1,896	2,708	4,156	4,557	4,108	4,211
<b>Operating Profit</b>	9,593	7,291	8,221	8,138	2,877	4,914	1,294	4,958	5,414	3,561
<b>Op. Margin</b>	16.6%	13.0%	14.4%	13.6%	8.3%	10.8%	2.3%	7.7%	8.1%	5.2%
<b>Net Profit</b>	6,220	7,608	5,055	4,552	5,269	5,537	(3,519)	3,864	5,197	3,195
<b>Net Margin</b>	10.7%	13.6%	8.8%	7.6%	15.2%	12.2%	-6.2%	6.0%	7.7%	4.6%
<b>Free Cash Flow</b>	5,134	4,294	1,793	3,237	4,455	6,664	1,639	4,629	4,393	4,717
<b>Income Tax</b>	2,244	2,111	1,697	2,843	1,098	421	575	786	700	456

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	91206	87484	89706	96920	134211	139615	162153	161404	158864	161869
<b>Cash &amp; Equivalents</b>	5,229	7,075	7,157	8,985	6,152	4,937	8,802	7,832	6,220	6,587
<b>Acc. Receivable</b>	10,448	10,653	11,481	12,595	14,271	8,743	9,254	9,661	9,108	10,838
<b>Inventories</b>	7,642	8,135	8,704	9,881	10,083	9,047	9,411	9,178	10,617	11,777
<b>Goodwill &amp; Int.</b>	42,976	42,904	42,743	43,793	74,536	61,082	94,824	92,952	90,663	89,098
<b>Total Liabilities</b>	58,502	58,518	60,241	65,368	93,492	95,289	88,269	86,705	84,650	100,424
<b>Accounts Payable</b>	6,250	6,875	7,483	9,579	11,080	7,816	8,639	8,751	9,896	10,698
<b>Long-Term Debt</b>	19,701	20,425	23,901	27,485	45,537	43,252	31,823	31,485	31,914	43,827
<b>Total Equity</b>	31,213	27,358	27,579	29,610	38,446	41,774	72,163	73,068	72,632	59,798
<b>LTD/E Ratio</b>	0.63	0.75	0.87	0.93	1.18	1.04	0.44	0.43	0.44	0.73

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%	2.4%	3.2%	2.0%
<b>Return on Equity</b>	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%	5.3%	7.1%	4.8%
<b>ROIC</b>	11.7%	14.9%	9.8%	8.1%	7.3%	6.4%	-3.6%	3.6%	4.9%	3.0%
<b>Shares Out.</b>	909	838	809	799	861	864	1,515	1,509	1,476	1,362
<b>Revenue/Share</b>	63.51	63.52	69.29	74.88	42.84	52.49	41.68	42.68	45.14	48.01
<b>FCF/Share</b>	5.63	4.86	2.17	4.05	5.50	7.71	1.21	3.07	2.96	3.29

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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