



Raytheon Technologies Corp. (RTX)

Updated January 24th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	5.0%	Market Cap:	\$144 B
Fair Value Price:	\$80	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/24/23 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	03/24/23 ²
Dividend Yield:	2.2%	5 Year Price Target	\$112	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Raytheon Technologies (RTX) was created on April 3rd, 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 \$144 billion market cap and headquartered in Waltham, MA, is one the largest aerospace and defense companies in the world with ~\$72 billion in annual sales and a global team of 174,000 employees, including 60,000 engineers and scientists. The company has four segments: Collins Aerospace Systems, Pratt & Whitney, Raytheon Intelligence & Space and Raytheon Missiles & Defense. On April 25th, 2022, Raytheon Technologies increased its quarterly dividend 7.8% to \$0.55.

On January 24th, 2023, Raytheon Technologies reported Q4 and full year results for the period ending December 31st, 2022. This marks the eleventh quarter of reporting all four segments together as a combined business. For the quarter, revenue grew 6.2% to \$18.1 billion, but was \$70 million less than anticipated. Adjusted earnings-per-share of \$1.27 compared favorably to \$1.08 in the prior year and was \$0.02 better than expected. For the year, revenue grew 4% to \$67.1 billion. Adjusted earnings-per-share of \$4.78 compared to \$4.27 in 2022 and was \$0.03 above the midpoint for guidance.

Organic sales were up 15% for the quarter and 6% for the year companywide. For the quarter, results were up 11%, 10%, and 6% in the Collins Aerospace, Pratt & Whitney, and Missiles & Defense segments, respectively, while the Intelligence & Space segments was down -8%. Raytheon Technologies' backlog at the end of the quarter was \$175 billion, compared to \$168 billion in the third quarter, of which \$106 billion was from commercial aerospace and \$69 billion was from defense. The company's full-year book-to-bill ratio was 1.28 after \$86 billion of awards during the year.

Raytheon Technologies issued guidance for 2023, with the company expecting sales of \$72.0 billion to \$73.0 billion, which would be a 7.3% increase from the prior year. Adjusted earnings-per-share is projected in a range of \$4.90 to \$5.05, which would be a 4.2% improvement from 2022. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$2.73	\$4.27	\$4.78	\$4.98	\$6.98
DPS	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$2.16	\$2.01	\$2.16	\$2.20	\$3.09
Shares³	917	909	838	809	799	861	864	1,515	1,509	1,476	1,476	1,465

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 2.9%, 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

¹ Estimated ex-dividend date.

² Estimated dividend date.

³ In millions.

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



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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 28 years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16	16.4	17.0	15.3	17.7	16.8	16.1	22.0	18.4	21.1	19.7	16.0
Avg. Yld.	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.6%	2.6%	2.1%	2.2%	2.8%

Once again note that we are using the history of United Technologies, which has traded with an average P/E ratio of about 16 times earnings over the past decade. We believe this is a fair starting multiple, considering the quality and growth prospects of the firm. Shares of Raytheon Technologies have increased \$9, or 10.1%, since our October 25th, 2022 update. With shares trading at nearly 20 times estimated earnings, this implies a valuation headwind. Reverting to our target valuation would decrease annual returns by 4.1% through 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	35%	41%	40%	41%	37%	36%	79%	47%	45%	44%	44%

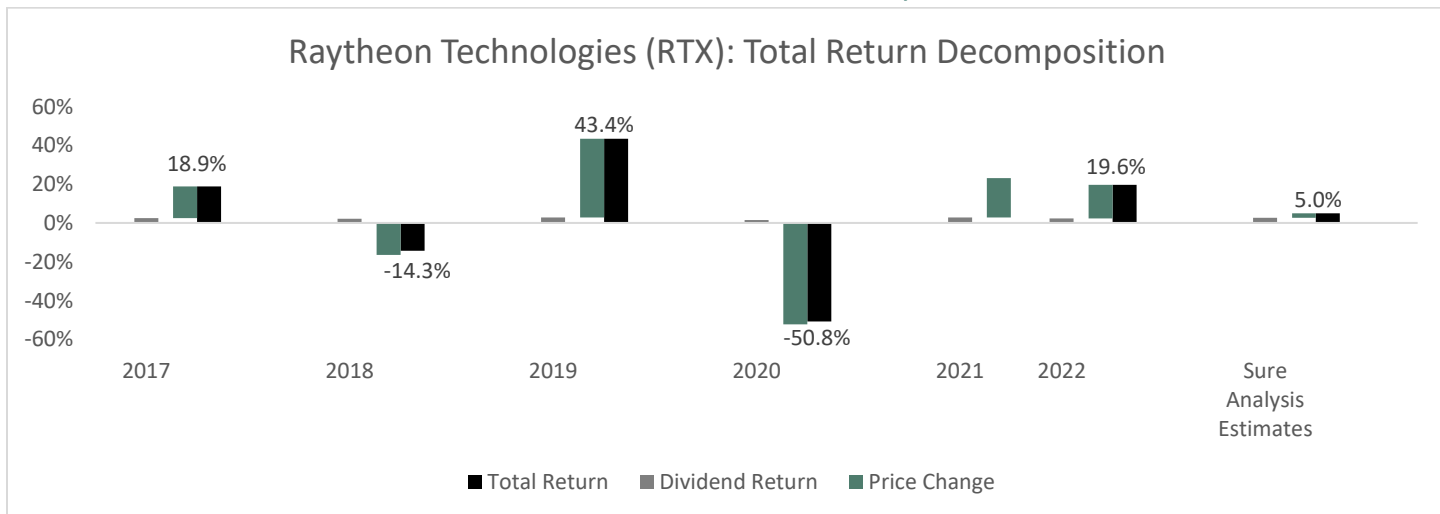
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting \$4.90, \$4.12, \$4.74, and \$5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept increasing their dividends during this period.

As of Q4 2022 Raytheon Technologies held \$6.2 billion in cash, \$42.4 billion in current assets, and \$158.9 billion in total assets against \$39.1 billion in current liabilities and \$84.7 billion in total liabilities. Long-term debt stood at \$30.7 billion.

Final Thoughts & Recommendation

We remain enthused on a number of fronts about Raytheon Technologies, including the storied histories of the companies, the resilient businesses, and the tremendous backlog. However, the valuation still leaves something to be desired. We are forecasting a 5.0% annual total return through 2028, down from 6.2% previously. Our forecast stems from a 7% growth rate and a 2.2% dividend yield offset by the potential for a valuation headwind. We have raised our five-year price target \$5 to \$112, but continue to rate shares as a hold due to projected results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	57,708	56,600	57,900	56,098	57,244	59,837	34,701	45,349	56,587	64,388
Gross Profit	15,555	16,132	17,002	15,667	15,773	15,636	7,236	10,751	8,531	12,491
Gross Margin	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	20.9%	23.7%	15.1%	19.4%
SG&A Exp.	6,452	6,364	6,172	5,886	5,958	6,429	2,864	3,711	5,540	5,224
D&A Exp.	1,524	1,735	1,820	1,863	1,962	2,140	1,896	2,708	4,156	4,557
Operating Profit	7,684	8,549	9,593	7,291	8,221	8,138	2,877	4,914	1,294	4,958
Op. Margin	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	8.3%	10.8%	2.3%	7.7%
Net Profit	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5,537	(3,519)	3,864
Net Margin	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	15.2%	12.2%	-6.2%	6.0%
Free Cash Flow	3,714	4,586	5,134	4,294	1,793	3,237	4,455	6,664	1,639	4,749
Income Tax	1,711	1,999	2,244	2,111	1,697	2,843	1,098	421	575	786

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,615	162,153	161,404
Cash & Equivalents	4,819	4,619	5,229	7,075	7,157	8,985	6,152	4,937	8,802	7,832
Acc. Receivable	11,099	11,458	10,448	10,653	11,481	12,595	14,271	8,743	9,254	9,661
Inventories	9,537	10,330	7,642	8,135	8,704	9,881	10,083	9,047	9,411	9,178
Goodwill & Int.	42,990	43,689	42,976	42,904	42,743	43,793	74,536	61,082	94,824	92,952
Total Liabilities	62,102	57,264	58,502	58,518	60,241	65,368	93,492	95,289	88,269	86,705
Accounts Payable	6,431	6,965	6,250	6,875	7,483	9,579	11,080	7,816	8,639	8,751
Long-Term Debt	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,252	31,823	31,485
Total Equity	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774	72,163	73,068
LTD/E Ratio	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04	0.44	0.43

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%	-2.3%	2.4%
Return on Equity	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%	-6.2%	5.3%
ROIC	12.2%	11.0%	11.7%	14.9%	9.8%	8.1%	7.3%	6.4%	-3.6%	3.6%
Shares Out.	919	917	909	838	809	799	861	864	1,515	1,509
Revenue/Share	63.65	61.85	63.51	63.52	69.29	74.88	42.84	52.49	41.68	42.68
FCF/Share	4.10	5.01	5.63	4.86	2.17	4.05	5.50	7.71	1.21	3.15

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

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