

# Raytheon(RTX) – Long PT: \$80



Today's Price: \$62.57  
 Dividend Yield: 3.04%  
 Market Cap: \$93B  
 Industry: Aerospace & Defense  
 Headquarters: Waltham, MA

A multinational conglomerate valued like an airline stock, despite steady defense and space businesses to support growth

## Business Overview

**Raytheon Technologies Corporation** is a technology and innovation leader specializing in defense, civil government and cybersecurity solutions. The company is a large military contractor, getting a significant portion of revenue from the U.S. government. It is the result of a merger between UTC and Raytheon Company. **Revenue Segmentation:** 55% integrated defense, 24% aerospace 25% other. 2019 Total revenue: \$21B

## Thesis Points

**1. Diversified Aerospace & Defense Portfolio:** Unlike most other companies in the industry, Raytheon is well-balanced between aerospace and defense. Its defense revenue is stable and can serve to insulate the company from a slow return in commercial airline growth, bolstered by the unlikelihood for the defense budget to drastically decrease no matter the results of the election. Its diversified portfolio and products offer a unique competitive advantage in which Raytheon offers superior product selection and service, which is attractive to large contractors. It also consistently trades like an airline stock, so it seems the market has not priced in its valuable defense segment.

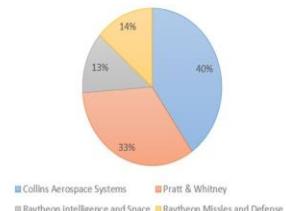
**2. United Technologies Merger:** This well-matched merger of equals from last Spring perfectly blended Raytheon's defense expertise with United Technology's commercial aerospace operations. This has provided the new Raytheon Technologies with vast scale and transformed it into a diversified aerospace/defense conglomerate focusing on cost and revenue synergy to create long-term value.

**3. Pentagon & Defense Strategy:** The most vital objective to the Department of Defense is moving correct data where it's needed in a timely manner. Superior data sharing and validation has been described as the Pentagon's greatest need. Raytheon is a dark horse in the cyber industry but is steadily growing to the top. They have decades of experience in supplying technology and understand not only the technology but the environment of war. When combined with Raytheon's unique focus on missiles and sensory over large scale war equipment, they are well-positioned for future proxy wars in the Middle East and suit the Pentagon's most vital needs.



## Industry Overview

Raytheon is a large player in the aerospace and defense space, followed by competitors Boeing and Lockheed Martin. The industry is currently experiencing a decline in demand in the commercial segment due to the pandemic, while a slow recovery over the next five years is expected. However, the defense segment remains stable due to a strong defense budget domestically. The industry is also going through a lot of consolidation due to the extreme complexity of its supply chain and cost overruns. While the defense segment places a heavy emphasis on product innovation, the commercial sector is also focusing on technological advances in response to concerns about aircraft pollution. Despite the impacts of the COVID-19 pandemic, we believe aerospace and defense will persevere due to the stability of the defense sector.



## Additional Commentary – Valuation/Risks/News

**Risks:** Aerospace Earnings Hit, Uncertain Airline Recovery, High Foreign Currency Exposure

