

The Henry Fund

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Raytheon Technologies (RTX)

Industrials – Aerospace & Defense

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Stock Rating

BUY

Investment Thesis

We recommend a buy rating for Raytheon Technologies with a potential upside of 12%. Raytheon's merger is still very new, and we expect the company to realize significant cost synergies over the forecast period. Furthermore, Raytheon is one of the most diversified A&D companies, and its performance is insulated from swings in defense or commercial aerospace markets. Overall, Raytheon is undervalued relative to its peers due to its potential to improve operating metrics over the forecast period.

Drivers of Thesis

- Raytheon's merger with United Technologies was completed in early 2020, and we believe significant cost synergies are yet to be realized. We expect gross margin to increase by 0.50% each quarter from Q1 2023 to FYE 2024. We then forecast gross margin to increase by 0.50% each year for the remainder of the forecast period.
- Raytheon manufactures the only geared propulsion engine on the market, and its GTF engine is currently the most sustainable engine in service. The GTF engine will be installed on Airbus' new A321XLR coming in 2024, and we forecast that segment revenues will grow by 9.25% in 2025.

Risks to Thesis

- The synergies expected from the company's merger with United Technologies could have been overvalued and result in significant impairments to goodwill. If our expected incremental cost synergies were halved, the DCF price would decline by 17%.
- Delta airline pilots are undergoing contract negotiations and have voted for the authorization to strike. If an agreement is not met, many delta and other airline pilots could strike, reducing demand for aircraft maintenance and other services.

Earnings Estimates

Year	2019	2020	2021	2022E	2023E	2024E
EPS	\$4.08	\$(2.29)	\$2.60	\$4.02	\$4.47	\$5.55
HF est. growth	-1.6%	-156.17%	-213.34%	-11.27%	58.48%	18.13%

12 Month Performance



Target Price

\$78-105

Henry Fund DCF	\$105
Henry Fund DDM	\$78
Relative Multiple	\$70

Price Data

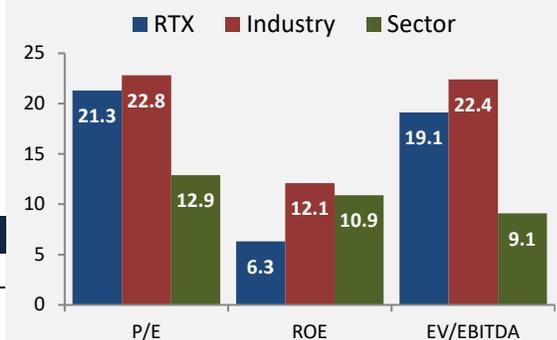
Current Price	\$93
52wk Range	\$79 – 106
Consensus 1yr Target	\$106

Key Statistics

Market Cap (B)	\$138.7
Shares Outstanding (M)	\$1,470.0
Institutional Ownership	80.2%
Beta	0.81
Dividend Yield	2.16%
Est. 5yr Growth	11.4%
Price/Earnings (TTM)	31.5
Price/Earnings (FY1)	18.6
Price/Sales (TTM)	2.1
Price/Book (mrq)	2.0

Profitability

EBITDA Margin	13.8%
Profit Margin	6.0%
Return on Assets (TTM)	-1.1%
Return on Equity (TTM)	-3.0%



Company Description

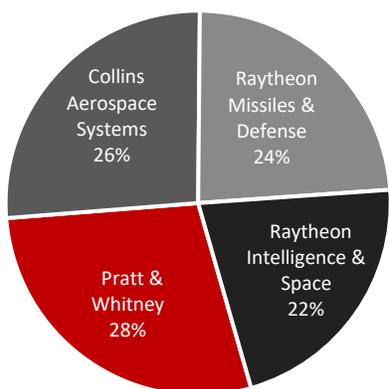
Raytheon Technologies is an aerospace and defense company that provides advanced products and services for global commercial, military, and government customers. The company operates through Collins Aerospace Systems, Pratt & Whitney, and Raytheon Intelligence & Space, Raytheon Missile & Defense.

Important disclosures appear on the last page of this report.

COMPANY DESCRIPTION

Raytheon Technologies is an aerospace and defense company that provides advanced products and services for global commercial, military, and government customers. The company operates through Collins Aerospace Systems, Pratt & Whitney, and Raytheon Intelligence & Space, Raytheon Missile & Defense. The pie chart below represents the revenue decomposition of Raytheon’s segments.

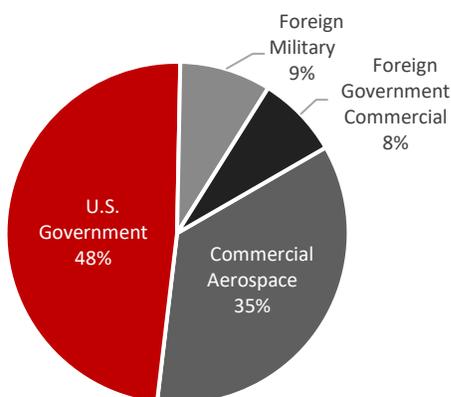
Revenue Decomposition



Source: FactSet

Raytheon serves four customer categories: US Government, Foreign Military, Foreign Government Commercial, and Commercial Aerospace. The pie chart below lists these categories and their respective share of revenue in 2021.

Customer Breakdown by Sales



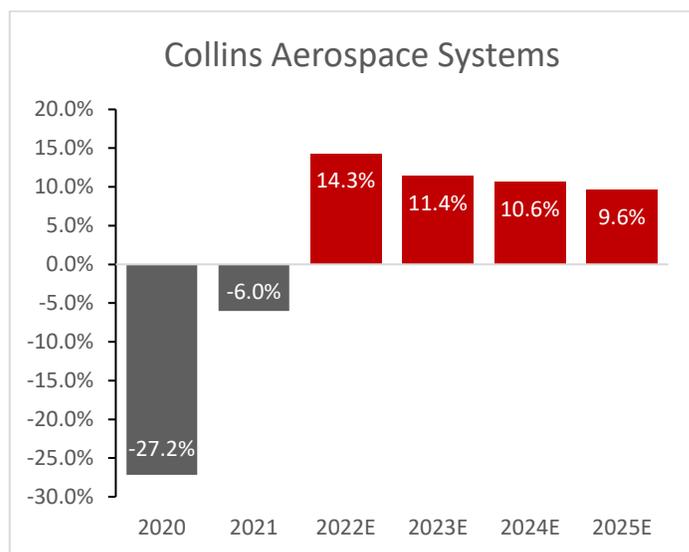
Source: FactSet

The company’s largest customer is the US government, but it has significant exposure to foreign sales as 38% of its revenues were sourced from foreign customers¹.

Collins Aerospace Systems

Collins Aerospace is a global provider of advanced aerospace and defense products and aftermarket solutions, serving end markets in commercial aviation, business aviation, military and defense, helicopters, space, and airports. In 2021, approximately 65% of segment revenues were sourced through commercial aerospace customers. Additionally, 57% of sales were made to original equipment manufacturers, and the other 43% were from aftermarket solutions². The segment has high customer concentration as Airbus and Boeing accounted for 18%, 21%, and 27% of segment revenues in 2021, 2020, and 2019, respectively¹.

We believe the segment will experience strong YoY growth of 25% and 12% in Q4 2022 and Q1 2023, respectively. The airline industry is heating up and is close to returning to pre-pandemic levels. Passenger miles have reached roughly 70% of pre-pandemic levels, and travelers through TSA are up 30% YoY and approximately 90% of pre-pandemic levels⁵. The graph below represents our revenue growth forecasts for the past three historical years and forecasted 2022E through 2024E.



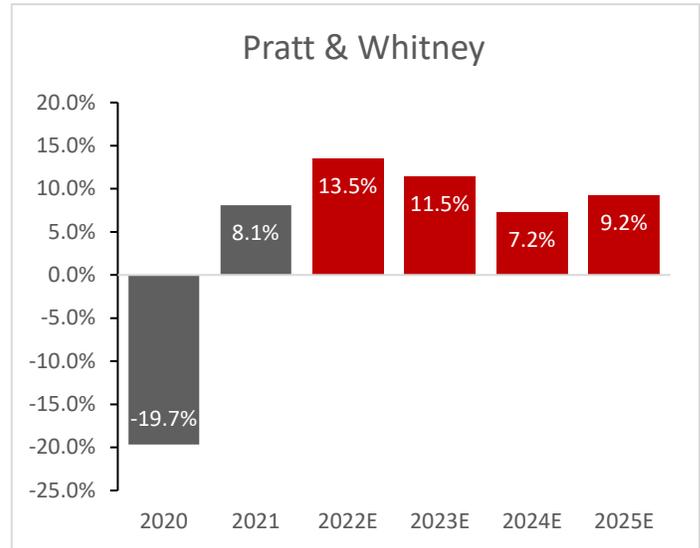
As depicted above, we expect growth of 14.3% and 11.4% in 2022 and 2023, respectively. This is due to the swift return of travel volume to pre-pandemic levels. The increase in travel will result in a need for aircraft repairs and part replacement as well as entirely new aircraft.

However, we expect more part replacement and maintenance revenue on the previously grounded fleets in 2022 and 2023. Additionally, the segment will benefit from its recent supplemental type certificate to install its CMU-4000 on all Hawker aircraft. The CMU-4000 helps decongest radio frequencies and reduce human error associated with vocal radio communication by enabling communication via text message². This will enhance the segment’s aftermarket solutions revenue as Hawker aircraft are no longer produced since its parent company, Beechcraft, was acquired by Textron Industries². Furthermore, Collins Aerospace recently signed a contract with Airbus to provide engine nacelles for its new A321XLR aircraft that is expected to release in 2024². Therefore, our revenue estimates are slightly below street estimates in the years leading up to 2025, where we are somewhat more bullish than the street. The street expects revenues to reach \$26,098 million in 2025, and we see revenues reaching \$26,230 million.

Pratt & Whitney

Pratt & Whitney is a global leader in designing, manufacturing, and servicing aircraft engines and auxiliary power units. The segment serves the military, commercial, business, and general aviation end markets. The segment has installed over 13,000 large commercial and 7,000 military engines to date. The segment has a concentrated customer base, as Airbus accounted for 31%, 30%, and 31% of segment sales in 2021, 2020, and 2019, respectively¹.

We expect the segment to experience strong growth due to similar travel trends stated in the Collins Aerospace section above. Additionally, the segment will benefit from an increased military budget of 9% and ongoing re-engine and maintenance contracts for the B-52 bomber. Pratt & Whitney has also developed the most sustainable engine on the market, the Geared Turbo Fan (GTF) engine. The GTF is the only geared propulsion engine in service right now and boasts a potential 75% reduction in noise footprint, 50% reduction in NOx emissions, and 20% reduction in CO2 emissions⁶. The engine is currently installed on the Airbus A320neo family and will be installed on the A321XLR in 2024². The following chart represents historical and projected revenue growth rates for Pratt & Whitney.

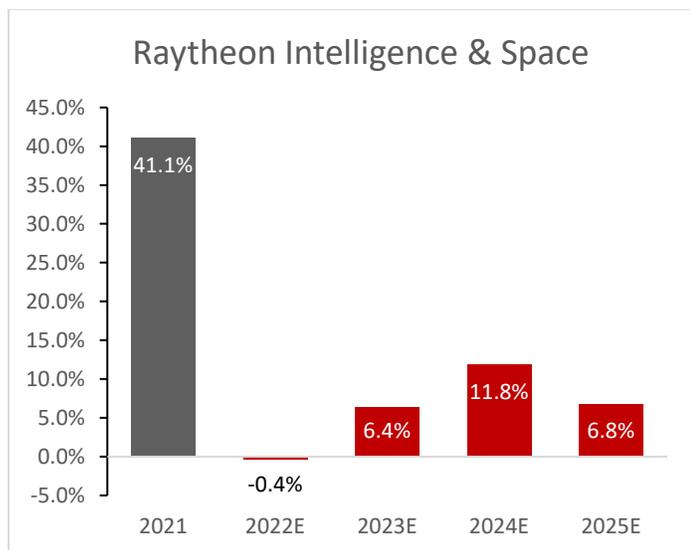


We forecast 13.5% and 11.5% growth in 2022E and 2023E, respectively. We expect a large portion of the currently grounded fleet to return to service, and the segment stands to benefit from engine maintenance and replacement. Additionally, our estimates include the sales generated from GTF engines that will be installed on Airbus’ A321 product line. Our forecasts are slightly above street estimates in 2022 and 2023 as we forecast a quicker return to travel, leading to increased demand for engines and power units. We forecast revenues to be below street estimates by \$51 million before experiencing over 9% growth in 2025. We anticipate Raytheon will start realizing revenues from Airbus’ A321XLR, in 2025; therefore, we forecast revenues to be \$225 million above street estimates in 2025.

Raytheon Intelligence & Space

Raytheon Intelligence & Space (RIS) provides integrated space, communication, sensor systems, and cyber and software solutions. The segment generated over 85% of its revenue from the US government in 2021 and 6% from foreign military customers³. A few of the segment’s major customers include the US Intelligence Community, the US Department of Defense, the Department of Homeland Security, the Federal Aviation Administration, and NASA¹. The segment has performed poorly year to date due to lower volume in its Command, Control, and Communications product lines. The segment’s book-to-bill ratio is 0.97 YTD indicating weaker demand⁷. However, as geopolitical tensions increase, we expect the segment to experience significant growth. The US will likely require enhanced intelligence capabilities to assess a nuclear

threat. Ukraine and its neighboring countries will probably benefit from similar capabilities, unmanned reconnaissance aircraft, and advanced cyber defense systems. Furthermore, demand for training and combat simulation technology is expected to increase as the threat of conflict rises in other parts of Europe and Asia. The following chart contains historical and forecasted revenue growth rates, excluding 2020 growth rates, as data is not available prior to the merger.

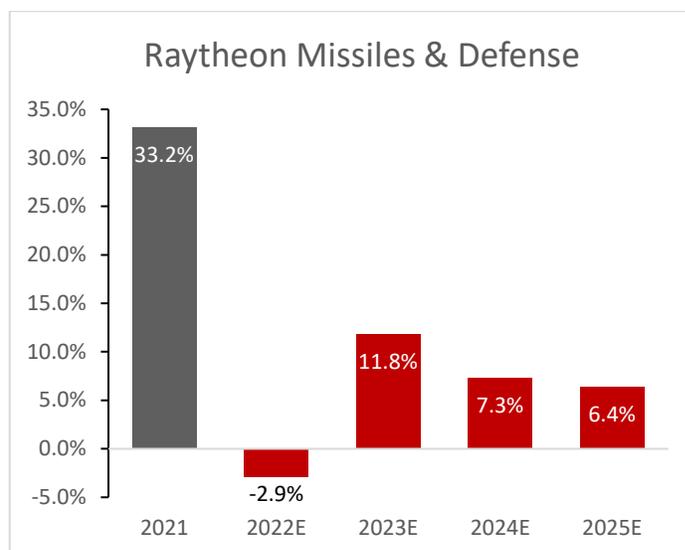


We forecast a decline in segment revenues in 2022 followed by growth of 6.4% in 2023. We anticipate that demand for surveillance and training products will be low in Q1 and Q2 2023. Therefore, we are forecasting the segment to grow by 3.0% and 3.5% in Q1 2023 and Q2 2023, respectively. We then expect demand to increase due to a slowdown in engagements between Russia and Ukraine and an increasing nuclear threat. A de-escalation in military movements will likely result in heightened expenditure on surveillance capabilities to gather intelligence about potential threats. Therefore, we forecast revenues to proliferate, reaching 11.8% YoY growth in 2024. Our estimates differ from street estimates due to our expectations for surveillance equipment and cyber security solutions. The table below represents our forecasted revenues for the segment and the percentage difference from street estimates.

	2022E	2023E	2024E	2025E
HF	13,895	14,780	16,526	17,648
Street	14,443	14,835	15,694	16,440
% Difference	-3.8%	-0.4%	5.3%	7.3%

Raytheon Missile & Defense

Raytheon Missile & Defense (RMD) is a leading designer and producer of integrated air and missile defense systems, combat solutions, communications, radar, and sensors. The US government accounted for 68% of revenues in 2021, and 28% was attributable to foreign military sales. The segment was recently awarded a \$985 million contract with the US Air Force to develop a hypersonic cruise missile. The company has partnered with Northrup Grumman to develop the missile, but we do not expect Raytheon to start realizing revenues for the missile until late 2025. Therefore, we forecasted Q3 and Q4 2024 revenues to grow by 7.0% and 6.5% YoY, respectively. Additionally, the segment installed its first AN/SPY-6 radar on the USS Jack H. Lucas¹⁹. The radar enables ships to see further and quickly detect and react to threats. We expect demand for missile defense systems to remain elevated in 2023 due to geopolitical tensions in Europe and Asia. Therefore, we expect to see large growth of 11.8% in 2023 and 7.3% in 2024.



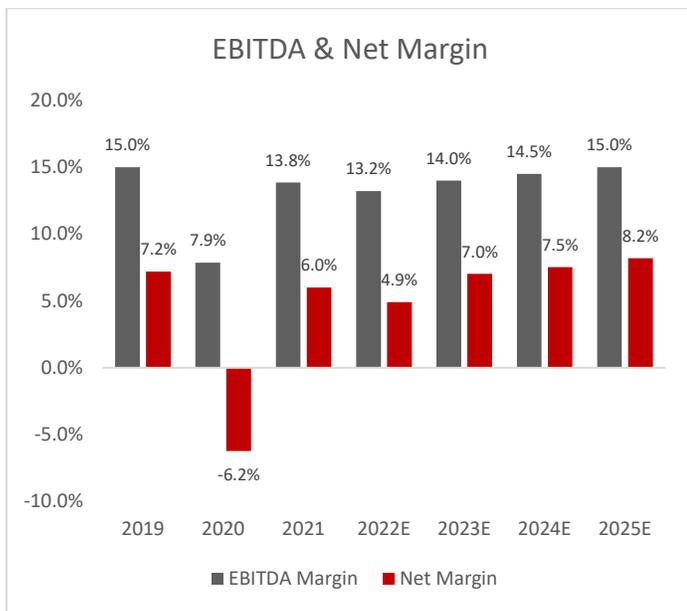
Cost Structure Analysis

The following depicts Raytheon's historical and forecasted gross margin percentage over the 2019 to 2025 period. Raytheon merged with United Technologies in early 2020, and we believe the company will continue to realize cost synergies over the forecast period. The company has realized over \$1 billion in synergies since the merger and reached its \$600 million target gross cost synergy one year ahead of schedule¹⁹. We expect it will be able to increase gross margin by 0.5% per quarter until 2025. After that, we

expect synergy realization to slow, and the company will then experience gross margin increases at 0.5% per year over the rest of the forecast period.



Due to the reduction in COGS, EBTIDA margin and net margin will experience growth over the forecast period. The chart below contains EBITDA and net margin data from 2019 to 2025E. As depicted, EBITDA margin increases from 13.2% in 2021 to 15% in 2025E, and the net margin rises by 2.2% from 2021 to 2025E.



Debt Maturity Analysis

The following table represents Raytheon’s debt maturity schedule. The most significant principal payment will come due in 2025 of \$1,590M. We are confident that Raytheon will be able to meet its obligations and service its debt

without the need to refinance. The company is still integrating the merged companies and will continue to generate more cash as cost synergies are realized.

Five-Year Debt Maturity Schedule

Fiscal Year	Payment (\$mil)
2022	\$13
2023	588
2024	1,270
2025	1,590
2026	751
Thereafter	27,088
Total	\$31,300

Source

Raytheon also received one of the best credit ratings among its peers, with an A- rating. The table below contains the S&P credit ratings of Raytheon’s peer group. Raytheon manages its working capital well and has a high interest coverage ratio of 3.51 as of FYE 2021. Therefore, we believe Raytheon will be able to meet its debt obligations over the forecast period.

Ticker	S&P Credit Rating
RTX	A-
LMT	A-
BA	BBB-
NOC	BBB+
GD	A-
LHX	BBB
TXT	BBB
HII	BBB-

Source: FactSet

ESG Analysis

Ticker	ESG Risk Score	E	S	G
RTX	36.0	2.1	2.6	7.5
LMT	30.3	4.2	4.5	7.7
BA	34.6	4.6	2.2	7.7
NOC	26.9	3.1	2.3	8.4
GD	34.9	0.9	8.6	7.5
LHX	23.5	1.9	5.3	7.3
TXT	33.8	3.5	2.2	6.7
HII	35.5	2.1	3.6	8.3
Median	34.2	2.6	3.1	7.6
Average	31.9	2.8	3.9	7.6

Source: Sustainalytics, Bloomberg

The previous chart contains ESG Risk scores and environmental, social, and governance scores for Raytheon and its comparable set. The ESG Risk Score is calculated to measure the manageable risk that is not being managed. As seen in the chart, Raytheon has the highest ESG risk score. Therefore, the company's share price is more likely to react negatively to a material ESG event. The individual ESG scores are out of 10 (10 is better). Raytheon has an environmental score of 2.11, and its score has not changed over the past two years. It performs well in energy management and waste management but lags behind its peers in creating sustainable products and having a negative ecological impact⁴. We expect Raytheon's environmental score to increase with its strides in sustainable aviation. Raytheon also falls below its peer group's median social and governance scores. The company has increased its social score by .63 over the past two years. The company scored 1.8 in data security and customer privacy and 3.0 in product quality. Raytheon leads its peer group in both of these areas. Finally, Raytheon falls slightly below the median governance score. The company performs well in most governance categories but lags behind its peer group in its audit score. We expect this to be related to the recent merger and the score will likely increase moving forward.

RECENT DEVELOPMENTS

Q3 Earnings Results

Raytheon released Q3 results on October 25th. The company's non-GAAP EPS of \$1.21 beat consensus expectations by \$0.07. However, GAAP EPS was \$0.94 and missed by \$0.06. Revenues missed by \$250 million. The company lowered revenue guidance from a range of \$67.75 to \$68.75 billion to \$67.0 to \$67.3 billion. Raytheon's underperformance over the quarter resulted from lower volumes in its defense and space segments. However, those segments were offset by its commercial aerospace segments. Collins Aerospace boosted operating profit by 31% QoQ and sales by 11% QoQ. Additionally, Raytheon's Pratt & Whitney segment grew operating by 68% QoQ and revenues by 14% QoQ.

The company is experiencing increased demand in its Commercial and Defense businesses. However, the labor market and supply chain has stunted the company's ability to fulfill its defense backlog in the short term. Raytheon is working very closely with its suppliers to try and mitigate this issue but has revised expectations lower for its

defense segments. The company's defense backlog was up nearly \$2 billion for the quarter, and it had a book-to-bill ratio of 1.22 for the quarter⁵. This indicates that demand for defense products and aftermarket support is strong; however, the company does not currently have the means to fulfill its contracts. The company has a positive outlook for its commercial businesses and has revised expectations upwards for its Collins Aerospace and Pratt & Whitney segments. This is due primarily to increased commercial air travel. Travelers through TSA checkpoints reached 91% of pre-pandemic levels, and revenue passenger miles were 75% of 2019 levels over quarter⁵.

Overture Aircraft

On July 19, 2022, Raytheon signed an agreement with Boom Supersonic to provide ice protection and air data systems for Boom's Overture program². The Overture is a sustainable supersonic aircraft that can fly at a speed of Mach 1.7 over water and has a range of 4,250 nautical miles². Raytheon had previously worked with Boom Supersonic to develop Overture's inlet, nozzle, and exhaust system technologies to enhance its net-zero carbon emissions capabilities. Boom Supersonic stated that they are thrilled to be working with Collins Aerospace for its expertise and scalability as they ramp up production of its supersonic airliner². The Overture will be released in 2025 and will carry its first passengers by 2029. Raytheon will benefit significantly from its partnership with Boom. However, Boom is working with Northrop Grumman to release a particular mission variant of the Overture to government and military customers. Therefore, we expect Raytheon to work mainly on the commercial overture variant.

Hypersonic Cruise Missile Contract

On September 22, 2022, Raytheon Technologies and Northrop Grumman were awarded a \$985 million contract to develop a Hypersonic Attack Cruise Missile (HACM) for the U.S. Airforce¹³. The missile pairs Raytheon's air-breathing technology with Northrop Grumman's Scramjet engines to create a missile capable of reaching and sustaining Mach 5 speeds¹⁴. Scramjet engines use high vehicle speed to compress incoming air before combustion, allowing the projectile to sustain supersonic speeds¹⁴. Raytheon's air-breathing technology propels the rocket into supersonic speeds, allowing Northrop Grumman's Scramjet technology to compress and use the surrounding air. Raytheon and Northrop Grumman have

been working together since 2019 to build similar hypersonic weapons. Both companies did not indicate when the missile will be operational; however, we expect the missile to be complete within the next four years, considering they have been working on similar technology since 2019. Therefore, the Missile & Defense segment will likely start to realize the related revenues in 2026.

INDUSTRY TRENDS

Sustainable Aviation

Sustainable aviation focuses on making air travel more efficient and environmentally friendly. Aviation currently accounts for 11% of all US transportation-related emissions⁹. Aerospace companies can reduce emissions by using Sustainable Aviation Fuel. Sustainable Aviation Fuel (SAF) is a biofuel with similar properties to conventional jet fuel; however, the fuel is created using biomass feedstock, which leaves a much smaller carbon footprint¹⁰. The degree of carbon impact depends on the feedstock used. Feedstock can include corn grain, oil seeds, algae, agricultural residues, wood mill waste, and others¹⁰. Aerospace companies can also reduce emissions by designing more fuel-efficient aircraft, which Raytheon does well. The company currently manufactures the only geared propulsion engine on the market. Raytheon's GTF engine uses sustainable aviation fuel and can reduce CO2 emissions by up to 20%². Additionally, the company signed an agreement to provide ice protection and air data systems for Overture, Boom's supersonic sustainable aircraft¹². Furthermore, President Biden's build back better Agenda includes a sustainable aviation tax credit. The credit aims to cut costs and scale domestic production of sustainable aviation fuel⁹. Through this action, President Biden stated that he expects the US to reduce emissions by 20% by 2030 and increase union labor positions⁹. Overall, the industry is moving toward a more sustainable future by investing in innovative technologies that reduce emissions.

Geopolitical Tension & Supply Chain

The Russia-Ukraine conflict has had a massive impact on the global supply chain. Russia is one of the world's largest exporters of oil, wheat, palladium, and nickel. The war and the sanctions imposed on Russian exports have caused commodity prices to rise significantly. The increased oil and rare earth metals have caused input prices to increase for Raytheon's Collins Aerospace and Pratt & Whitney

segments as they are direct inputs. However, some of the cost was mitigated by Collins Aerospace as its commercial contracts cover 80% of the associated costs¹. The war in Ukraine also limits airfreight over Russia, significantly increasing shipping costs and causing delays. Raytheon's RIS and RMD segments have also experienced difficulties realizing their backlog due to supply chain disruptions caused by the Russia-Ukraine conflict, but COVID-related supply chain issues are fading¹.

The war between Russia and Ukraine has also caused higher demand for various defense vehicles and weapons. The company expects to sell more of its short-range air defense missiles. The CEO of Raytheon also stated that the heightened threat environment is driving demand for Raytheon's defense products. The company's book-to-bill ratio for its defense products was 1.22. Additionally, it increased its defense backlog by around 2 billion over Q3 2022⁵.

Pilot Shortage

During the pandemic, most airlines assumed that travel would take up to five years to recover. Therefore, airlines placed many pilots on inactive status, pushing them to retire. It is estimated that nearly 6,000 pilots retired in 2020 compared to less than 2,000 in 2019⁸. Travel recovered faster than expected due to vaccine accessibility, excess spending capacity, and the desire for leisure travel⁸. This left the airlines understaffed and forced them to reduce the number of flights they offered. The airline industry continues to face issues, and hiring was down 2.55% in 2021 compared to 2019⁸. The table below contains new pilot hiring data by airline.

	2019	2020	2021	% Change from 2019
United	12,251	11,840	12,231	-0.16%
Delta	13,082	12,940	13,180	0.75%
American	13,800	13,400	12,700	-7.97%
Southwest	9,300	8,500	8,300	-10.75%
Jetblue	3,661	3,715	3,850	5.16%
Alaska	3,048	2,974	3,062	0.46%
Spirit	2,390	2,497	2,744	14.81%
Total	57,532	55,866	56,067	-2.55%

Hiring fell significantly in 2020 and slightly recovered in 2021. Southwest and American Airlines continue to struggle with their hiring initiatives. Similar airlines will

likely have a more significant number of grounded aircraft than those that have been able to hire more pilots.

Pilots are currently required to retire at the age of 65, and congress is attempting to increase the age to 67 due to the labor shortage for pilots⁸. Additionally, congress proposed to reduce the amount of flight time needed to receive an airline pilot certification. Both proposals would benefit Raytheon as more planes would be needed to accommodate the influx of pilots.

AEROSPACE & DEFENSE INDUSTRY

Raytheon Technologies operates within the Aerospace & Defense industry. Industry operators compete for prime contractor roles on major defense programs. Government contracts account for roughly 65% of industry revenues, and the top firms usually source over 70% of revenues from government contracts²⁰. The table below contains revenues and the percentage of defensive revenues for Raytheon and its comparable companies. Lockheed Martin is the largest A&D company with respect to revenues and generated roughly 72% of its revenue from defense contracts in 2021. Raytheon is the second largest company but only generated 57% of its revenues from defense contracts. This indicates that Raytheon is well-diversified across commercial and defense markets.

Ticker	Revenue (M)	Defense Share (%)
LMT	67,044	72%
RTX	64,388	57%
BA	62,286	49%
GD	38,469	80%
NOC	35,667	85%
LHX	17,814	75%
TXT	12,382	26%
HII	9,524	99%

The degree of rivalry within the industry is in between low and medium. Competition is low for most defense contractors as they each specialize in niche areas and invest heavily in R&D to drive product differentiation. However, commercial aerospace is high in both OEM aircraft manufacturers such as Boeing and Airbus as well as component manufacturers. Boeing and Airbus operate in a duopoly for commercial narrow and wide-body jets. Therefore, competition is high as they compete on price and geographic reach. The aerospace component

manufacturing market is more fragmented, and operators compete for OEM contracts. For example, Rolls Royce usually supplies engines to Boeing, while Raytheon's Pratt & Whitney provides engines to Airbus. The bargaining power of customers is high for component and engine manufacturers, as Boeing and Airbus manufacture planes that can accommodate either type of engine. Additionally, the bargaining power of customers is very high for defense contractors, as most of their revenue comes from government contracts. Therefore, revenues are sensitive to defense budgeting. The industry has very high capital requirements, thus making it very difficult to enter. Overall, it seems that companies that diversify across commercial aerospace and defense markets are best positioned for future growth.

PEER COMPARISONS

Lockheed Martin

Lockheed Martin is a leading aerospace and defense contractor. The company specializes in manufacturing combat aircraft, helicopters, satellites, spacecraft, and ship and submarine technology⁴. Lockheed operates through four segments: Aeronautics (40%), Rotary and Mission Systems (25%), Space Systems (20%), and Missiles and Fire Control (15%)⁴. The company's main customer is the Department of Defense, which typically accounts for around 65% of revenues.

The company is known for its advanced military aircraft, especially its F-35 fighter jet. The F-35 program accounted for 27% of net sales and 68% of Aeronautics sales in 2021¹⁷. Lockheed differentiates itself from its comparable set through its expertise in designing and manufacturing fighter jets. Lockheed's jets are far superior to any that are on the market and command a lot of business from international military forces. Lockheed's Aeronautics segment generated 65% of revenues from the US, and the other 35% was sourced internationally¹⁷. However, Lockheed partners with Raytheon's Pratt & Whitney to manufacture the engines for its F-35 program.

Boeing

Boeing is one of the world's largest aerospace companies. The company designs and manufactures commercial jetliners, military aircraft, satellites, missile defense systems, and space flight and launch systems. Boeing operates through four segments: Defense, Space &

Security (45%); Commercial Airplanes (30%); Boeing Global Services (25%); and Boeing Capital (>1%)⁴. Since COVID, the company has generated most of its revenue domestically, and 63% of revenues in 2021 were gained within the US. Before COVID, the company generally generated around 50 to 55% of revenues within the US⁴.

Boeing is one of two companies that manufactures airplanes that hold over 100 passengers. It is known for its commercial aircraft, but its Defense, Space & Security segment generates the most revenue compared to the other segments. The segment designs and manufactures manned and unmanned military aircraft and weapons systems. Additionally, the segment produces various intelligence systems, including strategic missile and defense systems, surveillance, and reconnaissance, among others¹⁸. The company is currently known for the issues it's been having with its 737 MAX, which has resulted in the company performing poorly over the past few years. Boeing's commercial airplane revenues were down 65% from Q1 2018 to Q1 2022²⁰.

Northrop Grumman

Northrop Grumman is a leading global aerospace and defense company. The company has a diverse product portfolio, providing space systems, advanced aircraft, missile defense weapons and long-range firing capabilities, mission systems, and other offerings⁴. The company operates globally but typically earns 85% of its revenues within the US. The company operates through four segments: Aeronautics (31%), Space Systems (29%), Mission Systems (26%), and Defense Systems (14%)⁴.

Northrop Grumman differentiates itself from its peer set through its expertise in unmanned autonomous vehicles. The company offers HALE and VTOL tactical strike and ISR systems. Additionally, Northrop Grumman is designing an unmanned undersea vehicle named the Manta Ray. The vehicle can operate on long-duration long-range missions by anchoring itself to the sea floor and harvesting energy from surrounding resources¹⁶. The company also competes with Raytheon on manned attack, tactical, and air dominance aircraft.

General Dynamics

General Dynamics is a global aerospace and defense company specializing in designing, engineering, and manufacturing various marine, aerospace, and combat

products and services. The company operates through four segments: Technologies (35%), Marine Systems (30%), Aerospace (20%), and Combat Systems (20%)⁴. The company operates in over 65 countries; however, approximately 85% of its revenue is typically sourced within the United States. The company generated 70%, 12%, 10%, and 8% of its revenue in 2021 from the US government, US commercial customers, non-US government, and foreign commercial customers, respectively¹⁵.

General Dynamics differentiates itself through its expertise in shipbuilding and marine systems. The Marine Systems segment is the largest producer of nuclear submarines for the US Nav and has a nearly \$50 billion backlog for its submarines¹⁵. Its expertise in marine warfare allows General Dynamics to benefit from coastal warfare and defense. General Dynamics mainly competes with Raytheon's Intelligence & Space segment. General Dynamic's Technologies segment provides information technology and mission systems. The segment provides intelligence, surveillance, reconnaissance, and cyber security solutions, directly competing with Raytheon's products in these areas.

L3Harris Technologies

L3Harris Technologies is a leading aerospace and defense contractor. The company was created by merging L3 Technologies and Harris in 2019²¹. The company designs, develops, and manufactures radio communications products and systems, including single-channel ground and airborne radio systems. L3Harris provides advanced defense and commercial technologies across air, land, sea, space, and cyber domains. The company operated through four segments but reorganized its segments in early 2022. The previous segments included: Integrated Missions (30%), Space & Airborne Systems (30%), Communications Systems (25%), and Aviation Systems (15%)⁴. The Aviation Systems segment was eliminated in 2022 and reorganized into the three other segments. Product sales typically account for 75% of revenues. Additionally, the company's main customer is the US government and typically accounts for 75% of sales⁴.

The company is smaller than many of its competitors and cannot sustain higher R&D and capital expenditures²². It allocates a large percentage of its resources to enhancing its current product portfolio rather than diversifying across many different areas. This allows them to be a strong

subcontractor on larger projects. Additionally, the company focuses on allocating resources to improve its operating metrics and has its peer group's highest gross and EBIT margins. We do not expect the company to gain significant market share in the industry and is an attractive acquisition candidate.

Textron Industries

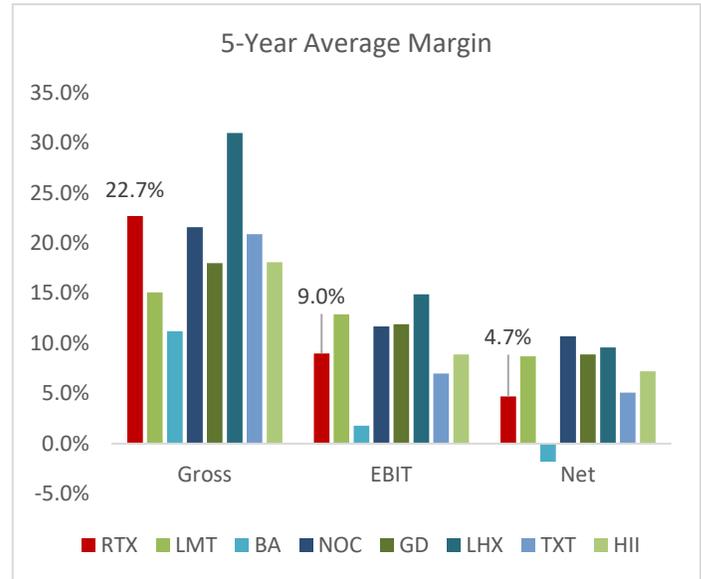
Textron Industries is a global aerospace and defense company. It specializes in manufacturing business and commercial planes and helicopters. However, it is also one of the leading manufacturers of helicopters for the US military. It operates through five segments: Textron Aviation (37%), Bell Helicopter (27%), Industrial Segment (25%), Textron Systems (10%), and Textron Financial Corporation (1%)⁴. The company differentiates itself through its expertise in helicopters and business jets. The company's industrial segment also produces plastic gas tanks, golf carts, snowmobiles, and all-terrain vehicles²¹.

Huntington Ingalls

Huntington Ingalls designs, builds, and maintains nuclear and non-nuclear ships for the US Navy and Coast Guard. The company also provides after-market services for military ships globally. The company operates through three segments: Newport News (60%), Ingalls (30%), and Technical Solutions (10%)⁴. The company differentiates itself as it is the sole designer, builder, and refueler of the US Navy's nuclear aircraft carriers. Additionally, it is the largest military shipbuilding company, and almost all of its revenues are sourced from the US government.

Margin Analysis

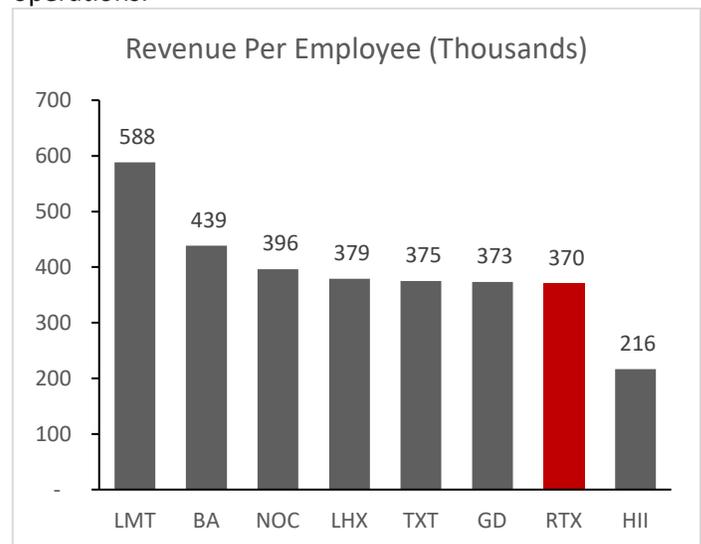
The following chart contains the 5-year average gross, EBIT, and Net margin for Raytheon and its comparable set. As depicted within the chart, Raytheon manages its costs of goods sold well and has the second-highest 5-year historical gross margin in its peer group. However, its operating margin resides within the middle of the pack and has the second-lowest net margin over the historical period. L3Harris has the highest average gross and EBIT margin, while Boeing has the lowest margins within the peer group. We believe Raytheon will be able to increase its gross and EBIT margin as it continues to realize revenue and cost synergies from its recent merger.



Source: FactSet

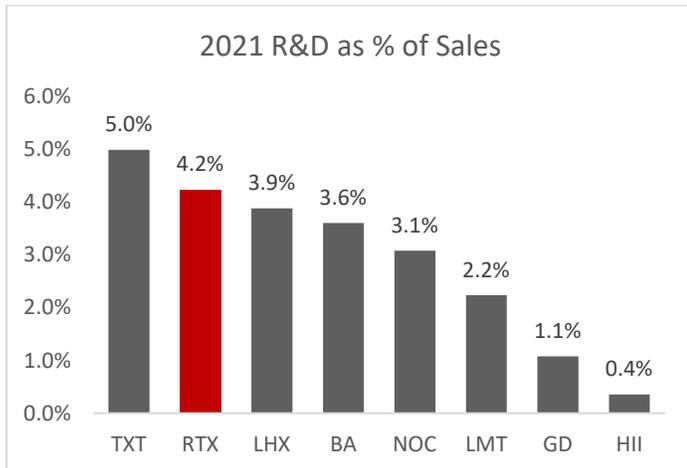
Revenue Per Employee

The following chart contains the revenue per employee for Raytheon and its peer set. The data was gathered as of FYE 2021. As depicted in the chart, Lockheed Martin has the highest revenue per employee of the comparable set, while Huntington has the lowest. Raytheon is second to last on the list, falling well below the average of \$392,000 and \$7,000 below the median of \$377,000. Raytheon may have retained too many employees from its merger in 2020, and this is likely responsible for its low revenue per employee. This indicates that Raytheon may be able to realize significant cost synergies by forming leaner operations.



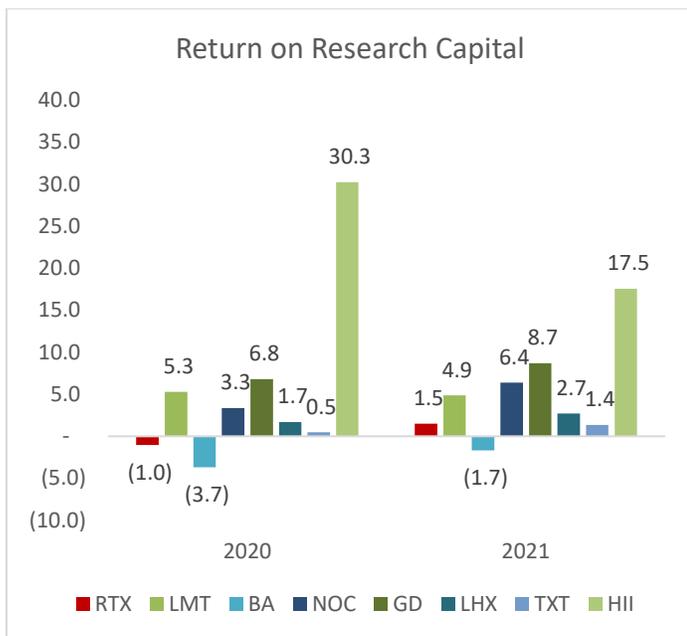
Source: Bloomberg

Research & Development



Source: FactSet

R&D expense is critical to aerospace and defense companies as they are constantly attempting to innovate and create unique products that are difficult to replicate. The chart above contains 2021 R&D expense as a percentage of revenue for Raytheon and its peer group. In 2021 Raytheon ranked second in R&D contributions within its peer group. Raytheon has been making strides within the sustainable aviation market and developing new hypersonic missile technologies with Northrop Grumman since 2016. We expect Raytheon to remain one of the top R&D contributors within its peer group.

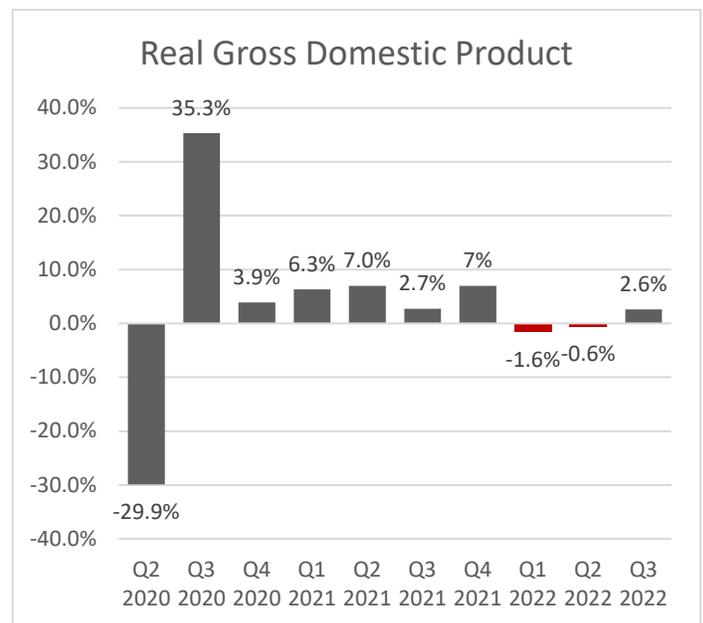


Source: FactSet

Return on research capital reports how much net income was generated for each dollar of research and development expense. The metric is calculated by dividing the current year's net income by the previous year's R&D expense. As pictured in the previous chart, Huntington has had the highest return on research capital in 2020 and 2021, while Boeing has had the lowest. Textron and Raytheon invest significantly in R&D but have had some of the lowest returns on research capital of the comparable set. However, many aerospace and defense companies likely won't realize research benefits until years later, and the chart data may be too shortsighted.

ECONOMIC OUTLOOK

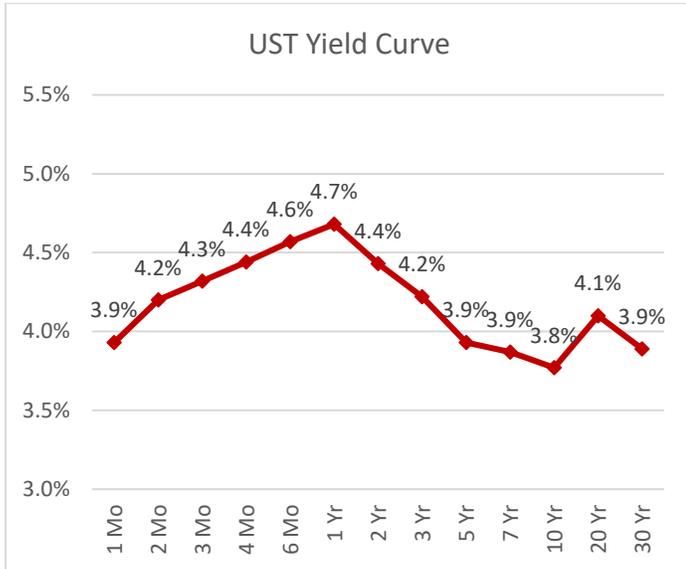
Gross Domestic Product



Source: St. Louis Federal Reserve

The chart above shows the QoQ percentage change in real GDP in the US. As depicted, GDP fell sharply in Q2 2020 when the pandemic struck and made a swift recovery. However, GDP growth has slowed over the past few quarters and reached negative QoQ numbers in Q1 and Q2 2022. This typically refers to a technical recession; however, we believe that we are currently at the peak of a business cycle and can expect a decline in GDP over the next couple of quarters. However, if we enter into a recession, we expect that we will reach a trough in 6 months. On average, troughs are typically noticed six months after markets have bottomed out. We believe that equity markets have hit their trough.

Interest Rate Environment

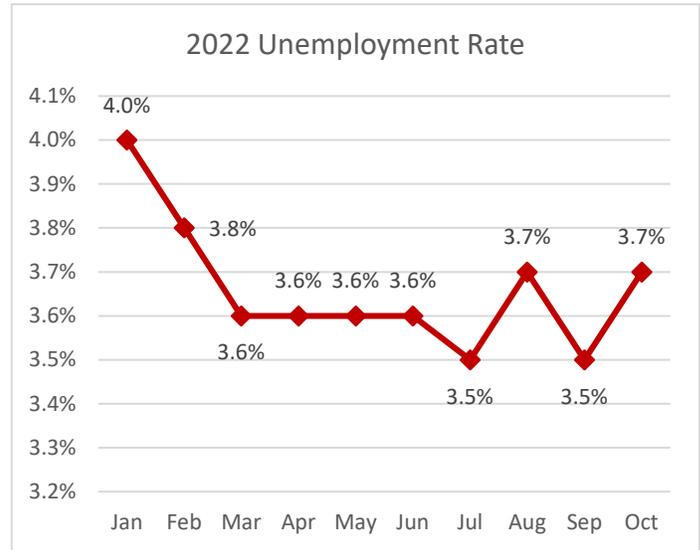


Source: US Treasury

The chart above consists of US treasury yields as of 11/17/2022. The yield curve is currently inverted, starting at the one-year yield. This is a leading indicator of a recession and a flight to quality. Additionally, the short end of the yield curve continues to steepen as the federal reserve increases the fed funds rate to combat inflation. This further inverts the yield curve as the fed has less influence over the long end of the yield curve. We expect the federal reserve to increase rates by 50 bps at the next FOMC meeting. Rising rates significantly impact Raytheon as it increases its cost of debt.

Unemployment

The chart below shows the monthly unemployment rate in the US in 2022. Unemployment recently ticked up to 3.7% from 3.5%. This is likely a result of rising interest rates and low profitability putting pressure on firms. We believe that increased rate hikes will increase the cost of borrowing for firms, and slower demand might force firms to lay off employees. Therefore, we expect the unemployment rate to increase in November to 3.8% and reach 4% by January 2023. Increased labor pressures could negatively affect Raytheon’s ability to fulfill backlog obligations. However, we believe that Raytheon is overstaffed as a result of the merger, and a reduction in its employee count will boost margins and result in a leaner and more efficient company.



Source: BLS

VALUATION

Revenue and Costs

	2019	2020	2021	2022E	2023E	2024E
Revenue	77,046	56,587	64,388	68,769	75,978	82,895
Growth	15.9%	-26.6%	13.8%	6.8%	10.5%	9.1%
	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	89,719	95,104	99,926	103,479	106,380	109,039
Growth	8.2%	6.0%	5.1%	3.6%	2.8%	2.5%

The chart above shows our forecasted net revenue growth rates over the forecast period. Segment forecasts are described in the company description section above. We are expecting slight growth in 2022 as the company continues to struggle with tight labor markets and supply chain. We expect the company to start realizing significant portions of its backlog from 2023 to 2025 before returning to somewhat moderate growth for the rest of the forecast period. Additionally, we expect the company to achieve major cost synergies from its recent merger. We forecast gross margin to increase by 50 basis points each quarter until 2025. We then expect gross margin to increase each year until the end of the forecast period. The DCF price we calculated is highly sensitive to changes in our synergy and CAPEX assumptions. The sensitivity table below depicts how small changes in either input can have large effects on the purchase price. Further description of margin expectations can be found in the cost analysis section

above.

DCF		CAPEX Growth %						
105.53		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
COGS Synergy %	0.20%	85.34	84.90	84.45	83.99	83.52	83.04	82.55
	0.30%	92.52	92.08	91.63	91.17	90.70	90.22	89.73
	0.40%	99.70	99.26	98.81	98.35	97.88	97.40	96.91
	0.50%	106.88	106.44	105.99	105.53	105.06	104.58	104.09
	0.60%	114.06	113.62	113.17	112.71	112.24	111.76	111.27
	0.70%	121.25	120.80	120.35	119.89	119.42	118.94	118.45
	0.80%	128.43	127.98	127.53	127.07	126.60	126.12	125.63

Management did not provide guidance on capital expenditures, but we expect them to grow in line with the overall inflation rate. Industry operators usually increase capital expenditures to perform new contract obligations. Therefore, it is likely that revenue and capital expenditures would be recognized in the same period. We forecasted CAPEX by growing it by our expected inflation rate.

Discount Rate Assumptions

Five main assumptions flow into the weighted average cost of capital. These include:

- Risk-Free Rate
- Beta
- Equity Risk Premium
- Default Premium
- Marginal Tax Rate

The risk-free rate gathered for Raytheon is the yield on the 10-year US treasury as of 11/14/2022. The 10-year was chosen as it is closest to our forecast period. The Beta of 0.82 was gathered from Bloomberg and was calculated as the two-year weekly raw beta against the S&P 500. The market risk premium is the Henry Fund's expected equity risk premium. These three assumptions make up the CAPM model and provide us with Raytheon's cost of equity of **8.06%**. The assumptions were chosen based on the current economic and geopolitical climate. As we are currently in a rising interest rate environment, it would not be realistic to forecast a risk-free rate equal to the 3-month T-bill. This is a consequence of investors moving to longer-duration treasury securities as a flight to safety in uncertain economic and political climates. This significantly increases short-term yields. Therefore, using the T-bond is more appropriate as it presents a more

realistic risk-free cost of borrowing over our investment horizon.

The cost of debt is calculated by adding the company's default premium to the risk-free rate to get the pre-tax cost of debt. This is then multiplied by one minus the tax rate to get a cost of debt of **4.47%**. The default premium was found by regressing the company's peer group yields on outstanding debt and subtracting the risk-free rate. The marginal tax rate was carried forward at the same rate in the most recent FYE, as we do not forecast any significant corporate tax changes over the 8-year period. Multiplying the after-tax cost of debt and cost of equity by their respective weights resulted in a WACC of **7.37%**.

Discounted Cash Flow Analysis (DCF)

Our DCF model resulted in an estimated share price of **\$105.53**. We are most comfortable with this model as we were modest in crafting our growth rates and are confident in the other inputs in the model. The DCF/EP models are calculated by discounting expected free cash flows by the company's weighted average cost of capital to present value. This gives you the present value of the company's operating assets. Non-operating assets and cash are added back, and debt and NCI are subtracted to arrive at the equity value. The model is susceptible to its inputs. The table below represents the model's sensitivity to the risk-free rate and CV growth rate changes. Changes in the risk-free rate significantly impact the WACC, and a slight increase could drastically reduce the valuation.

DCF		CV Growth NOPLAT						
105.53		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Risk-Free Rate	3.12%	102.91	109.84	118.26	128.72	142.04	159.59	183.78
	3.37%	97.39	103.57	111.01	120.14	131.62	146.49	166.51
	3.62%	92.31	97.83	104.43	112.45	122.42	135.13	151.90
	3.87%	87.62	92.57	98.45	105.53	114.23	125.18	139.38
	4.12%	83.26	87.72	92.98	99.26	106.90	116.39	128.52
	4.37%	79.22	83.24	87.96	93.55	100.29	108.58	119.02
	4.62%	75.45	79.09	83.33	88.33	94.30	101.58	110.63

Implied Price to Earnings/DDM

Historically, Raytheon has increased its dividend every year. However, in 2020 the company reduced its dividend from \$2.94 per share to \$2.16 per share. The company reduced its dividend again in 2021 to \$2.01 per share. We

expect the company to have lower dividends in 2022 before growing over the rest of the forecast period. To forecast dividends, we multiplied the average payout ratio by net income. Over the forecast period, dividends per share will reach pre-pandemic levels in 2028. Using the dividend discount approach to valuation, we calculated a price per share of **\$77.72**. The model is sensitive to its discount rate, which is the cost of equity and the CV growth rate of EPS. Additionally, it is exposed to the shares outstanding as decreases in percentage out will increase earnings per share.

Relative Valuation

We calculated the relative value of Raytheon based on the implied relative EV/2023E EBITDA multiple. Using the median multiple of Raytheon's peer group, it was determined that Raytheon should be trading at **\$70.15** per share or 11.97-times 2023E EBITDA. The valuation is market-based and consists of many peers that are not true pure-play comps. Therefore, we do not believe that Raytheon's implied relative valuation is near fair value for the company.

Target Range

Our target range for Raytheon is **\$78 – \$105**. To generate our target range, we used the DDM as the lower bound of our range and the DCF as the upper bound. We are comfortable with this range as we believe that our DDM produced a price that is the minimum of what someone should pay for the shares based on its expected dividend income. Our DCF price considers various inputs, future growth expectations, and the free cash flows generated by the company; therefore, we see the DCF price as the upper bound of what someone should pay for a share of Raytheon.

KEYS TO MONITOR

Cost Synergies: Cost synergies are a major driver of our thesis and can quickly change our expected purchase price. If the company overvalued its potential synergies from the merger, then Raytheon will continue to operate less efficiently than its peers.

Research & Development: Research and development is critical for attaining new business within the A&D industry. It will be important to see if Raytheon's investments in R&D are generating return. The return on research capital metric is important to monitor in this regard.

Book-to-bill Ratio: The book-to-bill ratio is a good indicator of demand. It is the ratio of orders received to units shipped. If Raytheon's book-to-bill ratio consistently falls below one, it could indicate that its products are no longer superior to its peers.

Commercial & Defense Diversification: Firms that are heavily weighted in defense contracts are more sensitive to changes in the defense budget. Additionally, those companies that do not have much exposure to defense contracts will be more susceptible to swings in the commercial aerospace market. Therefore, companies that are well diversified across markets are best positioned for growth.

Interest Rates: As interest rates rise, companies' cost of debt increases. Therefore, it will be more expensive to raise capital. This is crucial for capital intensive industries such as A&D. If interest rates continue to rise, companies may slow down capital expenditures and R&D spending.

Defense Budgeting: Many of the top firms in the industry source over 70% of their revenue from government contracts. Therefore, changes in defense budgeting is critical to the success of the industry and those firms. Firms that are diversified across commercial and military segments are better positioned to withstand changes in revolving political agendas.

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Raytheon Technologies
Revenue Decomposition

Fiscal Years Ending Dec. 31	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FYE 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FYE 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FYE 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FYE 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FYE 2023E	Q1 2024	Q2 2024	Q3 2024	Q4 2024	FYE 2024E	Q1 2025	Q2 2025	Q3 2025	Q4 2025	FYE 2025E	2026E	2027E	2028E	2029E	2030E
Pratt & Whitney	4,817	5,153	5,286	5,645	20,901	5,347	3,490	3,491	4,462	16,790	4,030	4,280	4,725	5,115	18,150	4,529	4,969	5,378	5,728	20,605	5,072	5,565	5,970	6,359	22,966	5,478	5,955	6,387	6,804	24,625	6,026	6,491	6,962	7,416	26,896	28,778	30,793	32,025	32,985	33,810
% Change YoY	-	-	-	-	-	11.00%	-32.27%	-33.96%	-20.96%	-19.67%	-24.63%	22.64%	35.35%	14.63%	8.10%	12.38%	16.10%	13.82%	12.00%	13.53%	12.00%	11.00%	11.00%	11.46%	8.00%	7.00%	7.00%	7.00%	7.22%	10.00%	9.00%	9.00%	9.00%	9.22%	377.56%	374.41%	359.97%	344.78%	25.71%	
Collins Aerospace Systems	6,513	6,174	6,084	6,045	24,816	6,008	3,893	3,963	4,210	18,074	4,038	4,173	4,227	4,552	16,990	4,465	4,607	4,661	5,690	19,423	5,001	5,160	5,220	6,259	21,640	5,476	5,727	5,847	6,885	23,935	6,023	6,300	6,402	7,505	26,230	28,066	29,470	30,649	31,568	32,357
% Change YoY	-	-	-	-	-	-7.75%	-36.95%	-34.86%	-30.36%	-27.17%	-32.79%	7.19%	6.66%	8.12%	-6.00%	10.57%	10.40%	10.27%	25.00%	14.32%	12.00%	12.00%	12.00%	10.00%	11.41%	9.50%	11.00%	12.00%	10.00%	10.61%	10.00%	10.00%	9.50%	9.00%	9.59%	365.95%	367.76%	378.72%	320.65%	23.36%
Raytheon Missiles & Defense	-	-	-	-	-	-	3,443	3,648	4,390	11,481	3,730	3,918	3,835	3,806	15,289	3,465	3,493	3,618	4,262	14,839	3,985	4,017	3,944	4,646	16,592	4,304	4,338	4,210	4,948	17,810	4,583	4,577	4,515	5,270	18,945	20,082	20,985	21,615	22,156	22,709
% Change YoY	-	-	-	-	-	-	13.80%	5.13%	-13.30%	33.17%	-7.10%	-10.83%	-5.66%	12.00%	-2.95%	15.00%	15.00%	9.00%	9.00%	11.81%	8.00%	8.00%	7.00%	6.50%	7.34%	6.50%	5.00%	7.00%	6.50%	7.00%	6.50%	6.37%	318.16%	358.51%	378.74%	320.41%	19.87%			
Raytheon Intelligence & Space	-	-	-	-	-	-	3,091	3,466	3,322	9,879	3,445	3,501	3,427	3,571	13,944	3,253	3,245	3,290	4,106	13,895	3,351	3,359	3,553	4,517	14,780	3,719	3,795	3,997	5,014	16,526	4,017	4,089	4,277	5,265	17,648	18,178	18,677	19,191	19,671	20,163
% Change YoY	-	-	-	-	-	-	7100.00%	5866.67%	4875.00%	5755.56%	527	8	13	-	35	4	-	4	0	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other - Corporate	-	2	3	4	9	5	144	179	199	527	8	8	13	-	35	4	-	4	0	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
% Change YoY	-	2	3	4	9	5	144	179	199	527	8	8	13	-	35	4	-	4	0	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Revenue	18,749	11,329	11,373	11,694	53,145	11,360	14,061	14,747	16,583	56,751	15,251	15,880	16,213	17,044	64,388	15,716	16,314	16,951	19,788	68,769	17,409	18,101	18,687	21,782	75,978	18,977	19,816	20,451	23,652	82,895	20,650	21,457	22,157	25,456	89,719	95,104	99,926	103,479	106,380	109,039
	-	-	-	-	-	-39.41%	24.12%	29.67%	41.81%	6.79%	34.25%	12.94%	9.94%	2.78%	13.46%	3.05%	2.73%	4.55%	16.10%	6.80%	10.77%	10.95%	10.24%	10.07%	10.48%	9.01%	9.48%	9.44%	8.58%	9.11%	8.81%	8.28%	8.34%	7.63%	8.23%	360.56%	365.70%	367.03%	317.90%	21.53%

Raytheon Technologies
Income Statement

Fiscal Years Ending Dec. 31	2019				2020				2021				2022				2023				2024				2025											
	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FYE 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FYE 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FYE 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FYE 2022E	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FYE 2023E	Q1 2024	Q2 2024	Q3 2024	Q4 2024	FYE 2024E	Q1 2025	Q2 2025	Q3 2025	Q4 2025	FYE 2025E	
Total net sales	18,365	19,634	19,496	19,551	77,046	18,210	14,061	14,747	9,569	56,587	15,251	15,880	16,213	17,044	64,388	15,716	16,314	16,951	19,788	68,769	17,409	18,101	18,687	21,782	75,978	18,977	19,816	20,451	23,652	82,895	20,650	21,457	22,157	25,456	89,719	
Cost of products and services sold	12,705	13,491	13,244	14,007	54,107	12,428	11,355	11,640	8,544	44,168	11,414	11,525	11,931	12,762	47,630	11,516	11,857	12,417	15,901	50,821	12,123	12,910	13,375	16,404	54,814	13,120	14,034	14,536	17,694	59,863	14,173	15,089	15,637	18,916	63,816	
Gross Profit	5,660	6,143	6,252	4,944	22,939	5,782	2,706	3,107	1,028	12,423	3,837	4,357	4,282	4,282	16,758	4,200	4,457	4,534	3,887	17,948	5,286	5,191	5,312	5,378	21,166	5,857	5,782	5,915	5,958	23,512	6,477	6,368	6,520	6,540	25,904	
Depreciation	568	574	598	(134)	1,506	626	299	565	317	1,767	527	530	536	235	1,828	527	532	550	474	2,083	479	479	479	479	1,918	492	492	492	492	1,967	504	504	504	504	2,017	
Amortization	374	348	389	361	1,452	354	600	599	572	2,125	596	602	622	619	2,439	487	467	497	546	1,997	524	524	524	524	2,096	544	544	544	544	2,174	515	515	515	515	2,061	
Research and development	726	743	732	812	3,015	671	695	642	574	2,582	595	657	676	810	2,732	635	698	662	897	2,852	678	734	740	987	3,139	739	803	809	1,072	3,424	804	870	877	1,153	3,705	
Selling, general and administrative	1,597	2,106	2,104	2,314	8,521	2,248	1,811	1,401	80	5,540	1,220	1,368	1,229	1,407	5,224	1,469	1,424	1,391	1,802	6,086	1,839	1,888	1,802	1,984	7,512	2,004	2,066	1,972	2,154	8,197	2,181	2,238	2,137	2,319	8,874	
Goodwill impairment	-	-	-	-	-	3,183	-	-	3,183	-	-	-	-	-	-	-	-	1,268	-	1,268	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other expense (income)	(112)	(212)	(37)	(160)	(521)	76	(62)	(734)	(145)	(885)	(108)	(82)	(124)	(109)	(423)	(28)	(17)	(46)	(249)	(334)	(225)	(336)	(307)	(267)	(1,135)	(246)	(368)	(336)	(290)	(1,239)	(267)	(398)	(364)	(312)	(1,342)	
Non-service pension / benefit	(208)	(216)	(303)	(161)	(888)	(168)	(277)	(253)	(224)	(902)	(491)	(490)	(491)	(472)	(1,944)	(480)	(474)	(468)	(451)	(1,873)	(406)	(406)	(406)	(406)	(1,623)	(361)	(361)	(361)	(361)	(1,441)	(316)	(316)	(316)	(316)	(1,283)	
Debt extinguishment costs	-	-	-	-	-	660	-	-	(660)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest expense, net	431	380	401	419	1,611	380	335	350	301	1,366	346	342	358	276	1,322	318	329	311	572	1,530	580	580	580	580	2,318	587	587	587	587	2,346	594	594	594	594	2,375	
Income from continuing operations before income taxes	1,822	2,440	2,388	1,593	4,243	955	(3,858)	337	233	(2,353)	1,158	1,430	1,476	867	4,591	1,242	1,498	369	1,189	4,298	1,817	1,728	1,900	1,497	6,942	2,098	2,018	2,209	1,761	8,086	2,461	2,360	2,572	2,082	9,479	
Income tax expense	397	441	1,131	326	2,295	941	(38)	152	(480)	575	345	342	3	96	786	116	160	242	209	727	320	304	334	263	1,222	369	355	389	310	1,423	433	415	453	366	1,668	
Net income / loss from continuing operations	1,425	1,999	1,257	1,267	5,948	14	(3,820)	185	693	(2,928)	813	1,088	1,473	771	4,145	1,126	1,338	127	980	3,571	1,497	1,424	1,566	1,234	5,720	1,729	1,663	1,820	1,451	6,663	2,027	1,945	2,120	1,716	7,808	
Noncontrolling interest in subsidiaries earnings from continuing operations	79	99	109	124	411	97	24	34	26	181	41	48	73	86	248	23	34	8	108	173	84	84	101	119	388	92	92	110	129	424	100	100	120	139	458	
Loss / income from continuing operations attributable to co	1,346	1,900	1,148	1,143	5,537	(83)	(3,844)	151	667	(3,109)	772	1,040	1,400	685	3,897	1,103	1,304	119	872	3,398	1,413	1,339	1,465	1,114	5,332	1,637	1,571	1,710	1,322	6,239	1,928	1,845	2,000	1,576	7,349	
Loss (income) from discontinued operations	-	-	-	-	-	-	(9)	(113)	489	367	19	8	7	(1)	33	19	-	-	-	19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interest in subsidiaries (earnings) / loss from di	-	-	-	-	-	-	-	-	43	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net income / loss attributable to common shareholders	1,346	1,900	1,148	1,143	5,537	(83)	(3,835)	264	135	(3,519)	753	1,032	1,393	686	3,864	1,084	1,304	119	872	3,379	1,413	1,339	1,465	1,114	5,332	1,637	1,571	1,710	1,322	6,239	1,928	1,845	2,000	1,576	7,349	

Raytheon Technologies
Income Statement

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total net sales	77,046	56,587	64,388	68,769	75,978	82,895	89,719	95,104	99,926	103,479	106,380	109,039
Cost of products and services sold	54,107	44,164	47,630	50,821	54,811	59,383	63,816	67,170	70,076	72,051	73,538	74,832
Gross Profit	22,939	12,423	16,758	17,948	21,166	23,512	25,904	27,934	29,850	31,429	32,841	34,208
Depreciation	1,506	1,767	1,828	2,083	1,918	1,967	2,017	2,069	2,121	2,175	2,230	2,286
Amortization	1,452	2,125	2,439	1,997	2,096	2,174	2,061	1,977	1,885	1,798	1,715	1,635
Research and development	3,015	2,582	2,732	2,892	3,139	3,424	3,705	3,882	4,079	4,224	4,343	4,451
Selling, general and administrative	8,521	5,540	5,224	6,086	7,512	8,197	8,874	9,591	10,077	10,436	10,728	10,996
Goodwill impairment	-	3,183	-	1,268	-	-	-	-	-	-	-	-
Other expense (income)	(521)	(885)	(423)	(334)	(1,135)	(1,239)	(1,342)	(1,409)	(1,481)	(1,533)	(1,576)	(1,616)
Non-service pension / benefit	(888)	(902)	(1,944)	(1,873)	(1,623)	(1,443)	(1,263)	-	-	-	-	-
Debt extinguishment costs	-	-	649	-	-	-	-	-	-	-	-	-
Interest expense, net	1,611	1,366	1,322	1,530	2,318	2,346	2,375	2,397	2,416	2,428	2,438	2,448
Income from continuing operations before income taxes	8,243	(2,353)	4,931	4,298	6,942	8,086	9,475	9,428	10,752	11,901	12,964	14,007
Income tax expense	2,295	575	786	727	1,222	1,423	1,668	1,659	1,892	2,095	2,282	2,465
Net income / loss from continuing operations	5,948	(2,928)	4,145	3,571	5,720	6,663	7,808	7,768	8,859	9,806	10,683	11,542
Noncontrolling interest in subsidiaries earnings from continuir	411	181	248	173	388	424	458	488	513	531	546	560
Loss / income from continuing operations attributable to con	5,537	(3,109)	3,897	3,398	5,332	6,239	7,349	7,280	8,346	9,275	10,137	10,982
Loss (income) from discontinued operations	-	367	33	19	-	-	-	-	-	-	-	-
Noncontrolling interest in subsidiaries (earnings) / loss from d	-	43	-	-	-	-	-	-	-	-	-	-
Net income / loss attributable to common shareowners	5,537	(3,519)	3,864	3,379	5,332	6,239	7,349	7,280	8,346	9,275	10,137	10,982
Basic weighted average shares	1,358	1,358	1,502	1,476	1,461	1,447	1,434	1,422	1,410	1,399	1,388	1,378
Earnings per share	4.08	(2.29)	2.60	2.30	3.65	4.31	5.12	5.12	5.92	6.63	7.30	7.97
Dividends per share	2.94	2.16	2.01	1.61	1.64	1.93	2.28	2.29	2.63	2.94	3.22	3.51
Total Dividends Paid	2,442	2,732	2,957	2,382	2,397	2,792	3,272	3,255	3,713	4,109	4,477	4,837

Raytheon Technologies
Balance Sheet

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cash and cash equivalents	7,378	8,802	7,832	14,375	17,734	21,672	26,188	30,445	35,204	40,317	45,812	51,727
Accounts receivable, net	13,524	9,254	9,661	12,777	14,116	15,401	16,669	17,670	18,566	19,226	19,765	20,259
Contract assets, current	4,184	9,931	11,361	5,257	5,808	6,337	6,859	7,270	7,639	7,911	8,132	8,336
Inventories and contracts in progress, net	10,950	9,411	9,178	10,542	11,647	12,708	13,754	14,579	15,318	15,863	16,308	16,715
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	1,461	5,978	4,018	4,173	4,173	4,173	4,173	4,173	4,173	4,173	4,173	4,173
Total Current Assets	37,497	43,376	42,050	47,125	53,479	60,291	67,642	74,138	80,900	87,490	94,190	101,210
Customer financing assets	3,477	3,144	2,848	2,916	3,222	3,515	3,805	4,033	4,238	4,388	4,511	4,624
Other LT assets	9,279	3,967	6,624	6,880	7,146	7,422	7,709	8,007	8,316	8,638	8,972	9,318
Fixed assets, net	12,755	14,962	14,972	15,139	15,527	15,924	16,330	16,745	17,169	17,603	18,048	18,503
Operating lease right-of-use asset	2,599	1,880	1,958	1,980	2,031	2,083	2,136	2,190	2,245	2,302	2,360	2,420
Goodwill	48,063	54,285	54,436	53,168	53,168	53,168	53,168	53,168	53,168	53,168	53,168	53,168
Intangible assets, net	26,046	40,539	38,516	36,519	34,423	32,249	30,188	28,211	26,326	24,528	22,813	21,178
Total Assets	139,716	162,153	161,404	163,727	168,996	174,652	180,978	186,492	192,362	198,117	204,062	210,421
Short-term debt	5,860	797	158	2,996	3,034	3,069	3,105	3,130	3,153	3,166	3,175	3,184
Accounts payable	10,809	8,639	8,751	10,158	11,223	12,245	13,253	14,048	14,761	15,285	15,714	16,107
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	11,737	13,407	12,820	13,311	14,706	16,045	17,366	18,409	19,342	20,030	20,591	21,106
Contract liabilities, current	6,180	12,889	13,720	6,958	7,687	8,387	9,078	9,623	10,111	10,470	10,764	11,033
Liabilities related to discontinued operations	-	116	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	34,586	35,848	35,449	33,424	36,651	39,747	42,802	45,210	47,366	48,951	50,243	51,429
Long-term debt	37,788	31,026	31,327	37,239	37,716	38,144	38,596	38,909	39,186	39,346	39,458	39,569
Operating lease liabilities	2,144	1,516	1,657	1,635	1,677	1,720	1,764	1,809	1,854	1,901	1,949	1,998
Future pension and postretirement benefit obligations	3,502	10,342	7,855	7,070	6,284	5,499	4,713	3,928	3,142	2,357	1,571	786
Other long-term liabilities	17,370	9,537	10,417	10,820	11,238	11,672	12,123	12,592	13,079	13,584	14,109	14,654
Total Liabilities	95,390	88,269	86,705	90,187	93,566	96,782	99,998	102,447	104,627	106,139	107,331	108,436
Common stock	22,955	36,881	37,445	37,479	37,512	37,546	37,580	37,590	37,590	37,590	37,590	37,590
Treasury stock	(32,626)	(10,407)	(12,727)	(15,227)	(16,727)	(18,227)	(19,727)	(21,227)	(22,727)	(24,227)	(25,727)	(27,227)
Retained earnings	61,594	49,423	50,265	51,281	54,216	57,663	61,740	65,765	70,398	75,564	81,224	87,369
Accumulated other comprehensive loss	(10,149)	(3,734)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)	(1,915)
Total shareowners' equity	41,774	72,163	73,068	71,618	73,086	75,067	77,678	80,213	83,346	87,012	91,172	95,817
Redeemable noncontrolling interest	95	32	35	153	186	223	262	304	348	394	441	490
Noncontrolling interest	2,457	1,689	1,596	1,769	2,158	2,581	3,040	3,528	4,041	4,572	5,118	5,678
Total Equity	44,326	73,884	74,699	73,539	75,430	77,871	80,980	84,045	87,736	91,978	96,732	101,985
Balance	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	1,611	5,081	4,227	4,565	5,133	5,795	6,571	7,342	8,222	9,196	10,257	11,404
Deferred tax liabilities	7,340	9,574	9,237	9,721	10,533	11,480	12,589	13,692	14,951	16,344	17,862	19,501
Change in deferred taxes	631	(1,236)	517	146	244	285	334	332	379	419	456	493

Raytheon Technologies
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net income / loss from continuing operations	5,200	6,074	6,623	4,356	5,436	4,920	5,654	5,948	(2,928)	4,145
Depreciation and amortization	1,524	1,821	1,907	1,863	1,962	2,140	2,433	3,783	4,156	4,557
Deferred income tax provision / benefit	120	242	376	662	398	62	735	35	(99)	(88)
Minority interests in subsidiaries earnings	-	-	-	-	-	-	-	-	-	-
Stock compensation cost	210	275	240	158	152	192	251	356	330	442
Portfolio separation tax cost	-	-	-	-	-	-	-	634	-	-
Gain on sale of Taylor Company	-	-	-	-	-	-	(799)	-	-	-
Net periodic pension and other postretirement bene	-	-	-	-	-	-	-	(525)	(413)	(1,414)
Debt extinguishment costs	-	-	-	-	-	-	-	-	-	649
Goodwill impairment loss	-	-	-	-	-	-	-	-	3,183	-
Change in working capital										
Accounts receivable	(165)	(531)	7	(438)	(941)	(448)	(2,426)	419	1,318	(570)
Contract asset, current	-	-	-	-	-	-	(604)	(307)	63	(1,594)
Inventories and contracts in progress	(539)	(1,096)	(1,091)	(844)	(719)	(1,074)	(537)	(1,216)	412	163
Other current assets	(4)	74	(123)	(55)	49	(101)	161	(309)	(445)	(566)
Accounts payable and accrued liabilities	811	1,354	(40)	490	450	1,571	2,446	1,229	(1,666)	917
Contract liabilities, current	-	-	-	-	-	-	205	359	1,129	1,372
Global pension contributions	(430)	(108)	(517)	(147)	(303)	(2,112)	(147)	(118)	(1,025)	(59)
Other operating activities, net	(122)	(600)	(46)	653	(72)	481	(1,050)	(1,405)	319	(812)
Net cash flows provided by operating activities of cor	6,605	7,505	7,336	6,698	6,412	5,631	6,322	8,883	4,334	7,142
Capital expenditures	(1,389)	(1,688)	(1,711)	(1,652)	(1,699)	(2,014)	(1,902)	(2,256)	(1,795)	(2,134)
Decrease / increase in customer financing assets, net	(25)	(135)	129	(169)	(221)	(975)	(382)	(658)	88	158
Other investing activities, net excluding decrease / in	(237)	(328)	(72)	(91)	49	232	(139)	(245)	(91)	25
Receipts / payments from settlements of derivative c	-	-	-	160	249	(317)	143	336	(32)	(16)
Acquisitions and dispositions of businesses, net										
Investments in businesses	(16,026)	(151)	(402)	(538)	(710)	(231)	(15,398)	(56)	(419)	(1,088)
Dispositions of businesses	425	1,560	344	200	211	70	1,105	138	2,556	1,879
Cash acquired in Raytheon Merger	-	-	-	-	-	-	-	-	3,208	-
Proceeds from sale of investments in Watsco, Inc.	-	-	-	-	-	596	-	-	-	-
Increase in collaboration intangible assets	(1,543)	(722)	(593)	(437)	(388)	(380)	(400)	(351)	(172)	(188)
Net cash flows used in / provided by investing activ	(18,795)	(1,464)	(2,305)	(2,527)	(2,509)	(3,019)	(16,973)	(3,092)	3,343	(1,364)
Issuance of long-term debt	10,899	92	99	1,744	6,469	4,954	13,455	88	2,004	4,062
Repayment of long-term debt	(842)	(2,862)	(305)	(1,764)	(2,452)	(1,604)	(2,520)	(2,830)	(16,082)	(4,254)
Debt extinguishment costs	-	-	-	-	-	-	-	-	-	(649)
Change in commercial paper, net										
Increase / decrease in short-term borrowings, net	(214)	(113)	(346)	795	(331)	(271)	(356)	927	(2,041)	(113)
Dividend from discontinued operations	-	-	-	-	-	-	-	-	17,207	-
Proceeds from common stock issuance - equity unit s	522	378	187	1,100	-	-	-	-	-	-
Other financing activities, net excluding proceeds fro	(592)	(327)	(346)	(467)	(551)	(545)	(119)	(156)	(136)	(447)
Dividends paid on common stock	(1,752)	(1,908)	(2,048)	(2,184)	(2,069)	(2,074)	(2,170)	(2,442)	(2,732)	(2,957)
Repurchase of common stock	-	(1,200)	(1,500)	(10,000)	(2,254)	(1,453)	(325)	(151)	(47)	(2,327)
Net transfers to / from discontinued operations	-	-	-	-	-	-	-	-	(2,033)	(71)
Net cash flows provided by / used in financing activ	8,021	(5,940)	(4,259)	(10,776)	(1,188)	(993)	7,965	(4,564)	(3,860)	(6,756)
Change in cash from continuing operations	(4,169)	101	772	(6,605)	2,715	1,619	(2,686)	1,227	3,817	(978)
Net cash flows used in / provided by discontinued op	3,015	(277)	-	8,619	(2,526)	-	-	-	(2,383)	-
Net cash used in / provided by operating activities	41	(628)	-	(372)	(2,532)	-	-	-	(728)	(71)
Net cash used in / provided by investing activities	2,974	351	-	9,000	6	-	-	-	(241)	-
Net cash provided by / used in financing activities	-	-	-	(9)	-	-	-	-	(1,414)	71
Effect of foreign exchange rate changes on cash and	30	(41)	(156)	(174)	(120)	210	(120)	(19)	54	(1)
Effect of foreign exchange rate changes on cash and	-	-	-	-	-	-	-	-	(76)	-
Net increase / decrease in cash and cash equivalents	(1,124)	(217)	616	1,840	69	1,829	(2,806)	1,208	1,412	(979)
Cash, cash equivalents and restricted cash within ass	-	-	-	-	-	-	-	-	2,459	-
Net increase / decrease in cash and cash equivalents	(1,124)	(217)	616	1,840	69	1,829	(2,806)	1,208	3,871	(979)
Cash, cash equivalents and restricted cash, beginning	5,960	4,836	4,619	5,235	7,120	7,189	9,018	6,212	4,961	8,832
Cash and cash equivalents of continuing operations, i	4,836	4,619	5,235	7,075	7,157	8,985	6,152	7,378	8,802	7,832
Cash, cash equivalents and restricted cash, end of pe	4,819	4,619	5,235	7,075	7,189	9,018	6,212	7,420	8,832	7,853
Restricted cash, included in other assets	-	-	-	-	(32)	(33)	(60)	(42)	(30)	(21)
Cash and cash equivalents of businesses held for sale	17	-	-	-	-	-	-	-	-	-
Supplemental disclosure										
Interest paid, net of amounts capitalized	(725)	(1,047)	(1,077)	(1,057)	(1,157)	(974)	(1,027)	(1,801)	(1,628)	(1,339)
Income taxes paid, net of refunds	(1,772)	(2,789)	(2,024)	(2,060)	(4,096)	(1,326)	(1,714)	(1,768)	(1,716)	(1,124)
Contributions of UTC common stock to domestic defi	-	-	-	250	-	-	-	-	-	-

Raytheon Technologies
Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net Income	3,398	5,332	6,239	7,349	7,280	8,346	9,275	10,137	10,982
Depreciation	2,083	1,918	1,967	2,017	2,069	2,121	2,175	2,230	2,286
Amortization	1,997	2,096	2,174	2,061	1,977	1,885	1,798	1,715	1,635
Impairment of Goodwill	1,268	-	-	-	-	-	-	-	-
Redeemable noncontrolling interest	118	33	37	40	42	44	46	47	48
Noncontrolling interest	173	388	424	458	488	513	531	546	560
Changes in NWC Accounts:									
Accounts receivable	(3,116)	(1,339)	(1,285)	(1,268)	(1,000)	(896)	(660)	(539)	(494)
Contract asset, current	6,104	(551)	(529)	(522)	(412)	(369)	(272)	(222)	(203)
Inventories and contracts in progress	(1,364)	(1,105)	(1,060)	(1,046)	(825)	(739)	(545)	(445)	(408)
Other current assets	(155)	-	-	-	-	-	-	-	-
Accounts payable and accrued liabilities	1,407	1,065	1,022	1,008	795	712	525	428	393
Contract liabilities, current	(6,762)	729	700	690	545	488	360	293	269
Accrued Liabilities	491	1,395	1,339	1,321	1,042	933	688	561	515
Net change in cash from operating activities	5,642	9,962	11,027	12,109	12,001	13,040	13,921	14,752	15,583
Capital Expenditures	(2,250)	(2,306)	(2,364)	(2,423)	(2,484)	(2,546)	(2,609)	(2,675)	(2,741)
Customer financing assets	(68)	(306)	(293)	(289)	(228)	(204)	(151)	(123)	(113)
Operating lease right-of-use asset	(22)	(51)	(52)	(53)	(54)	(56)	(57)	(58)	(60)
Other LT assets	(256)	(266)	(276)	(287)	(298)	(309)	(321)	(334)	(347)
Other long-term liabilities	403	418	434	451	469	487	505	525	545
Net change in cash from investing activities	(2,194)	(2,510)	(2,551)	(2,601)	(2,596)	(2,628)	(2,633)	(2,665)	(2,715)
Short term debt	2,838	38	34	36	25	22	13	9	9
Long-term debt	5,912	476	429	451	313	277	160	112	111
Operating lease liabilities	(22)	42	43	44	45	46	47	48	49
Future pension and postretirement benefit obligations	(786)	(786)	(786)	(786)	(786)	(786)	(786)	(786)	(786)
Issue of common stock	34	34	34	34	10	-	-	-	-
Repurchases	(2,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Dividends paid	(2,382)	(2,397)	(2,792)	(3,272)	(3,255)	(3,713)	(4,109)	(4,477)	(4,837)
Net change in cash from financing activities	3,095	(4,092)	(4,538)	(4,992)	(5,148)	(5,653)	(6,175)	(6,593)	(6,953)
Net change in cash	6,543	3,359	3,938	4,516	4,258	4,759	5,113	5,495	5,914

Raytheon Technologies
Common Size Income Statement

Fiscal Years Ending Dec. 31	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FYE 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FYE 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FYE 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FYE 2022E	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FYE 2023E	Q1 2024	Q2 2024	Q3 2024	Q4 2024	FYE 2024E	Q1 2025	Q2 2025	Q3 2025	Q4 2025	FYE 2025E	
Total net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product sales	70.1%	71.5%	70.0%	68.8%	70.1%	68.3%	76.6%	77.8%	90.4%	76.6%	76.5%	76.7%	76.1%	76.8%	76.5%	75.5%	75.1%	75.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Services sales	29.9%	28.5%	30.0%	31.2%	29.9%	31.7%	23.4%	22.2%	9.6%	23.4%	23.5%	23.3%	23.2%	23.3%	23.5%	24.5%	24.9%	24.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of products and services sold	69.5%	68.7%	67.9%	74.7%	70.2%	68.2%	80.8%	80.3%	89.3%	78.0%	74.8%	72.6%	73.6%	74.9%	74.0%	73.5%	72.7%	73.3%	75.8%	73.9%	69.6%	71.3%	71.6%	75.3%	72.1%	69.1%	70.8%	71.1%	74.8%	71.6%	68.6%	70.3%	70.6%	74.3%	71.1%	
Cost of products sold	56.0%	55.3%	53.7%	55.4%	55.1%	53.7%	68.4%	70.0%	87.9%	67.4%	65.4%	63.0%	63.5%	63.5%	63.8%	62.5%	61.5%	61.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of services sold	18.6%	18.1%	19.2%	19.9%	19.0%	19.9%	18.4%	18.2%	10.6%	17.5%	16.8%	16.7%	17.2%	16.4%	16.8%	17.4%	17.3%	17.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Profit	30.5%	31.3%	32.1%	25.3%	29.8%	31.8%	19.2%	19.7%	10.7%	22.0%	25.2%	27.4%	26.4%	25.1%	26.0%	26.5%	27.3%	26.7%	24.2%	26.1%	30.4%	28.7%	28.4%	24.7%	27.9%	30.9%	29.2%	28.5%	25.2%	28.4%	31.4%	29.7%	29.4%	25.7%	28.9%	
Depreciation	3.1%	2.9%	3.1%	-1.2%	2.0%	3.4%	1.8%	3.8%	3.3%	3.1%	3.5%	3.3%	3.3%	1.4%	2.8%	3.4%	3.3%	3.2%	2.4%	3.0%	2.8%	2.6%	2.6%	2.2%	2.5%	2.6%	2.5%	2.4%	2.1%	2.4%	2.4%	2.4%	2.3%	2.0%	2.2%	
Amortization	2.0%	1.8%	1.9%	1.8%	1.9%	1.9%	4.3%	4.1%	6.0%	3.8%	3.9%	3.8%	3.8%	3.6%	3.8%	3.1%	2.9%	2.9%	2.8%	2.9%	3.0%	2.9%	2.8%	2.4%	2.8%	2.9%	2.7%	2.7%	2.3%	2.6%	2.5%	2.4%	2.3%	2.0%	2.1%	
Research and development	4.0%	3.8%	3.8%	4.2%	3.9%	3.7%	4.9%	4.4%	6.0%	4.8%	3.9%	4.1%	4.2%	4.8%	4.2%	4.0%	4.3%	3.9%	4.5%	4.2%	3.9%	4.1%	4.0%	4.5%	4.1%	3.9%	4.1%	4.0%	4.5%	4.1%	3.9%	4.1%	4.0%	4.5%	4.1%	
Selling, general and administrative	10.9%	10.7%	10.8%	11.8%	11.1%	12.3%	12.9%	9.5%	0.8%	9.8%	8.0%	8.6%	7.6%	8.3%	8.1%	9.3%	8.7%	8.2%	9.1%	8.9%	10.6%	10.4%	9.6%	9.1%	9.9%	10.6%	10.4%	9.6%	9.1%	9.9%	10.6%	10.4%	9.6%	9.1%	9.9%	
Goodwill impairment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	22.6%	0.0%	0.0%	5.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	0.0%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other expense (income)	-0.6%	-1.1%	-0.2%	-0.8%	-0.7%	0.4%	-0.6%	-5.0%	-1.5%	-1.6%	-0.7%	-0.5%	-0.8%	-0.6%	-0.7%	-0.2%	-0.1%	-0.3%	-1.2%	-0.5%	-1.3%	-1.9%	-1.6%	-1.2%	-1.5%	-1.3%	-1.9%	-1.6%	-1.2%	-1.5%	-1.3%	-1.9%	-1.6%	-1.2%	-1.5%	
Non-service pension / benefit	-1.1%	-1.1%	-1.6%	-0.8%	-1.2%	-1.0%	-1.7%	-1.7%	-2.3%	-1.6%	-3.2%	-3.1%	-3.0%	-2.8%	-3.0%	-3.1%	-2.9%	-2.8%	-2.3%	-2.7%	-2.3%	-2.2%	-2.2%	-1.9%	-2.1%	-1.9%	-1.8%	-1.8%	-1.5%	-1.7%	-1.5%	-1.5%	-1.4%	-1.2%	-1.4%	
Debt extinguishment costs	0.0%	0.0%	0.0%	0.0%	0.0%	3.6%	0.0%	0.0%	-6.9%	0.0%	0.0%	0.0%	3.8%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Interest expense, net	2.3%	1.8%	2.1%	2.1%	2.1%	2.1%	2.4%	2.4%	3.1%	2.4%	2.3%	2.2%	2.2%	1.6%	2.1%	2.0%	2.0%	1.8%	2.9%	2.2%	3.3%	3.2%	3.1%	2.7%	3.1%	3.1%	3.1%	3.0%	2.9%	2.5%	2.8%	2.9%	2.8%	2.7%	2.3%	2.6%
Income from continuing operations before income taxes	9.9%	12.4%	12.2%	8.1%	10.7%	5.2%	-27.4%	2.3%	2.2%	-4.2%	7.6%	9.0%	9.1%	5.1%	7.7%	7.9%	9.2%	2.2%	6.0%	6.3%	10.4%	9.5%	10.2%	6.9%	9.1%	11.1%	10.2%	10.8%	7.4%	9.8%	11.9%	11.0%	11.6%	8.2%	10.6%	
Income tax expense	2.2%	2.2%	5.8%	1.7%	3.0%	5.2%	-0.3%	1.0%	-5.0%	1.0%	2.3%	2.2%	0.0%	0.6%	1.2%	0.7%	1.0%	1.4%	1.3%	1.1%	1.8%	1.7%	1.8%	1.2%	1.6%	1.9%	1.8%	1.9%	1.3%	1.7%	2.1%	1.9%	2.0%	1.4%	1.9%	
Net income / loss from continuing operations	7.8%	10.2%	6.4%	6.5%	7.7%	0.1%	-27.3%	1.3%	7.2%	-5.2%	5.3%	6.9%	9.1%	4.5%	6.4%	7.2%	8.2%	0.7%	5.0%	5.2%	8.6%	7.9%	8.4%	5.7%	7.5%	9.1%	8.4%	8.9%	6.1%	8.0%	9.3%	9.6%	6.7%	8.7%		
Noncontrolling interest in subsidiaries earnings from continuing operations	0.4%	0.5%	0.6%	0.6%	0.5%	0.5%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.1%	0.2%	0.0%	0.5%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%		
Loss / income from continuing operations attributable to common shareholders	7.3%	9.7%	5.9%	5.8%	7.2%	-0.5%	-27.3%	1.0%	7.0%	-5.5%	5.1%	6.5%	8.6%	4.0%	6.1%	7.0%	8.0%	0.7%	4.4%	4.9%	8.1%	7.4%	7.8%	5.1%	7.0%	8.6%	7.9%	8.4%	5.6%	7.5%	9.3%	8.6%	9.0%	6.2%	8.2%	
Loss (income) from discontinued operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.8%	5.1%	0.6%	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Noncontrolling interest in subsidiaries (earnings) / loss from discontinued operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Net income / loss attributable to common shareholders	7.3%	9.7%	5.9%	5.8%	7.2%	-0.5%	-27.3%	1.8%	1.4%	-6.2%	4.9%	6.5%	8.6%	4.0%	6.0%	6.9%	8.0%	0.7%	4.4%	4.9%	8.1%	7.4%	7.8%	5.1%	7.0%	8.6%	7.9%	8.4%	5.6%	7.5%	9.3%	8.6%	9.0%	6.2%	8.2%	

Raytheon Technologies
Common Size Income Statement

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product sales	70.1%	76.6%	76.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Service sales	29.9%	23.4%	23.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of products and services sold	70.2%	78.0%	74.0%	73.9%	72.1%	71.6%	71.1%	70.6%	70.1%	69.6%	69.1%	68.6%
Cost of products sold	-55.1%	-67.4%	-63.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of services sold	-19.0%	-17.5%	-16.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Profit	29.8%	22.0%	26.0%	26.1%	27.9%	28.4%	28.9%	29.4%	29.9%	30.4%	30.9%	31.4%
Depreciation	2.0%	3.1%	2.8%	3.0%	2.5%	2.4%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%
Amortization	1.9%	3.8%	3.8%	2.9%	2.8%	2.6%	2.3%	2.1%	1.9%	1.7%	1.6%	1.5%
Research and development	3.9%	4.6%	4.2%	4.2%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Selling, general and administrative	11.1%	9.8%	8.1%	8.9%	9.9%	9.9%	9.9%	10.1%	10.1%	10.1%	10.1%	10.1%
Goodwill impairment	0.0%	5.6%	0.0%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other expense (income)	-0.7%	-1.6%	-0.7%	-0.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
Non-service pension / benefit	-1.2%	-1.6%	-3.0%	-2.7%	-2.1%	-1.7%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt extinguishment costs	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expense, net	2.1%	2.4%	2.1%	2.2%	3.1%	2.8%	2.6%	2.5%	2.4%	2.3%	2.3%	2.2%
Income from continuing operations before income taxes	10.7%	-4.2%	7.7%	6.3%	9.1%	9.8%	10.6%	9.9%	10.8%	11.5%	12.2%	12.8%
Income tax expense	3.0%	1.0%	1.2%	1.1%	1.6%	1.7%	1.9%	1.7%	1.9%	2.0%	2.1%	2.3%
Net income / loss from continuing operations	7.7%	-5.2%	6.4%	5.2%	7.5%	8.0%	8.7%	8.2%	8.9%	9.5%	10.0%	10.6%
Noncontrolling interest in subsidiaries earnings from continuing operations	0.5%	0.3%	0.4%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Loss / income from continuing operations attributable to common shareowners	7.2%	-5.5%	6.1%	4.9%	7.0%	7.5%	8.2%	7.7%	8.4%	9.0%	9.5%	10.1%
Loss (income) from discontinued operations	0.0%	0.6%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Noncontrolling interest in subsidiaries (earnings) / loss from discontinued operations	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income / loss attributable to common shareowners	7.2%	-6.2%	6.0%	4.9%	7.0%	7.5%	8.2%	7.7%	8.4%	9.0%	9.5%	10.1%

Raytheon Technologies
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cash and cash equivalents	8.4%	7.4%	8.0%	12.6%	12.5%	15.0%	9.3%	9.6%	15.6%	12.2%	20.9%	23.3%	26.1%	29.2%	32.0%	35.2%	39.0%	43.1%	47.4%
Accounts receivable, net	19.2%	18.3%	17.4%	19.0%	20.1%	21.0%	21.5%	17.6%	16.4%	15.0%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%
Contract assets, current	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.2%	5.4%	17.5%	17.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Inventories and contracts in progress	16.5%	16.5%	15.2%	14.5%	15.2%	16.5%	15.2%	14.2%	16.6%	14.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%
Assets held for sale	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other current assets	5.3%	4.8%	5.1%	1.5%	2.1%	2.3%	2.3%	1.9%	10.6%	6.2%	6.1%	5.5%	5.0%	4.7%	4.4%	4.2%	4.0%	3.9%	3.8%
Total Current Assets	51.3%	47.0%	45.7%	47.6%	49.9%	54.9%	53.4%	48.7%	76.7%	65.3%	68.5%	70.4%	72.7%	75.4%	78.0%	81.0%	84.5%	88.5%	92.8%
Customer financing assets	2.0%	1.8%	1.5%	1.8%	2.4%	4.0%	4.5%	4.5%	5.6%	4.4%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Other LT assets	12.4%	11.9%	12.2%	14.5%	13.7%	12.9%	13.3%	12.0%	7.0%	10.3%	10.0%	9.4%	9.0%	8.6%	8.4%	8.3%	8.3%	8.4%	8.5%
Fixed assets, net	14.8%	14.2%	14.2%	15.6%	16.0%	17.0%	18.5%	16.6%	26.4%	23.3%	22.0%	20.4%	19.2%	18.2%	17.6%	17.2%	17.0%	17.0%	17.0%
Operating lease right-of-use asset	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	3.3%	3.0%	2.9%	2.7%	2.5%	2.4%	2.3%	2.2%	2.2%	2.2%	2.2%
Goodwill	48.2%	45.0%	42.7%	48.7%	47.3%	46.6%	72.3%	62.4%	95.9%	84.5%	77.3%	70.0%	64.1%	59.3%	55.9%	53.2%	51.4%	50.0%	48.8%
Intangible assets, net	26.3%	24.8%	23.9%	27.8%	27.4%	26.5%	39.7%	33.8%	71.6%	59.8%	53.1%	45.3%	38.9%	33.6%	29.7%	26.3%	23.7%	21.4%	19.4%
Total Assets	154.9%	144.7%	140.2%	155.9%	156.7%	162.0%	201.8%	181.3%	286.6%	250.7%	238.1%	222.4%	210.7%	201.7%	196.1%	192.5%	191.5%	191.8%	193.0%
Short-term debt	2.8%	0.8%	3.0%	2.0%	3.9%	4.2%	6.5%	7.6%	1.4%	0.2%	4.4%	4.0%	3.7%	3.5%	3.3%	3.2%	3.1%	3.0%	2.9%
Accounts payable	11.1%	11.1%	10.7%	12.3%	13.1%	16.0%	16.7%	14.0%	15.3%	13.6%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%
Liabilities held for sale	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued liabilities	26.5%	24.5%	21.5%	26.1%	21.3%	20.6%	15.4%	15.2%	23.7%	19.9%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%
Contract liabilities, current	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%	8.0%	22.8%	21.3%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Liabilities related to discontinued operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Current Liabilities	41.2%	36.4%	35.2%	40.3%	38.3%	40.8%	47.2%	44.9%	63.4%	55.1%	48.6%	48.2%	47.9%	47.7%	47.5%	47.4%	47.3%	47.2%	47.2%
Long-term debt	37.4%	31.5%	27.5%	34.4%	37.9%	41.8%	61.9%	49.0%	54.8%	48.7%	54.2%	49.6%	46.0%	43.0%	40.9%	39.2%	38.0%	37.1%	36.3%
Operating lease liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	2.7%	2.6%	2.4%	2.2%	2.1%	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%
Future pension and postretirement	13.0%	5.5%	10.3%	10.7%	9.8%	5.1%	6.0%	4.5%	18.3%	12.2%	10.3%	8.3%	6.6%	5.3%	4.1%	3.1%	2.3%	1.5%	0.7%
Other long-term liabilities	15.9%	18.0%	17.1%	18.8%	19.3%	21.6%	25.4%	22.5%	16.9%	16.2%	15.7%	14.8%	14.1%	13.5%	13.2%	13.1%	13.1%	13.3%	13.4%
Total Liabilities	107.6%	91.4%	90.0%	104.3%	105.2%	109.2%	140.6%	123.8%	156.0%	134.7%	131.1%	123.1%	116.8%	111.5%	107.7%	104.7%	102.6%	100.9%	99.4%
Common stock	24.0%	23.4%	23.3%	28.4%	30.0%	29.2%	33.7%	29.8%	65.2%	58.2%	54.5%	49.4%	45.3%	41.9%	39.5%	37.6%	36.3%	35.3%	34.5%
Treasury stock	-33.4%	-32.6%	-33.7%	-55.1%	-59.7%	-59.5%	-48.8%	-42.3%	-18.4%	-19.8%	-22.1%	-22.0%	-22.0%	-22.0%	-22.3%	-22.7%	-23.4%	-24.2%	-25.0%
Retained earnings	63.7%	64.7%	68.5%	89.1%	92.4%	92.3%	87.0%	79.9%	87.3%	78.1%	74.6%	71.4%	69.6%	68.8%	69.2%	70.5%	73.0%	76.4%	80.1%
Accumulated other comprehensive income	-9.4%	-4.6%	-10.2%	-13.6%	-14.6%	-12.6%	-14.0%	-13.2%	-6.6%	-3.0%	-2.8%	-2.5%	-2.3%	-2.1%	-2.0%	-1.9%	-1.9%	-1.8%	-1.8%
Total shareowners' equity	44.9%	50.9%	47.9%	48.8%	48.2%	49.5%	57.8%	54.2%	127.5%	113.5%	104.1%	96.2%	90.6%	86.6%	84.3%	83.4%	84.1%	85.7%	87.9%
Redeemable noncontrolling interest	0.4%	0.2%	0.2%	0.2%	0.5%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%
Noncontrolling interest	2.0%	2.2%	2.1%	2.6%	2.8%	3.0%	3.3%	3.2%	3.0%	2.5%	2.6%	2.8%	3.1%	3.4%	3.7%	4.0%	4.4%	4.8%	5.2%
Total Equity	47.3%	53.2%	50.2%	51.6%	51.5%	52.7%	61.2%	57.5%	130.6%	116.0%	106.9%	99.3%	93.9%	90.3%	88.4%	87.8%	88.9%	90.9%	93.5%

Raytheon Technologies
Value Driver Estimation

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Marginal Tax Rate	22.10%	22.30%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%	17.60%
NOPLAT:												
Revenue	77,046	56,587	64,388	68,769	75,978	82,895	89,719	95,104	99,926	103,479	106,380	109,039
Cost of goods sold	54,107	44,164	47,630	50,821	54,811	59,383	63,816	67,170	70,076	72,051	73,538	74,832
SG&A	8,521	5,540	5,224	6,086	7,512	8,197	8,874	9,591	10,077	10,436	10,728	10,996
Depreciation	1,506	1,767	1,828	2,083	1,918	1,967	2,017	2,069	2,121	2,175	2,230	2,286
Amortization	1,452	2,125	2,439	1,997	2,096	2,174	2,061	1,977	1,885	1,798	1,715	1,635
Research and development	3,015	2,582	2,732	2,892	3,139	3,424	3,705	3,882	4,079	4,224	4,343	4,451
Implied interest on operating leases	137	148	107	112	113	116	119	122	125	128	131	135
EBITA	8,582	557	4,642	5,001	6,615	7,866	9,366	10,537	11,812	12,924	13,958	14,974
Adjusted Taxes:												
Income tax provision	2,295	575	786	727	1,222	1,423	1,668	1,659	1,892	2,095	2,282	2,465
ADD: Tax on goodwill impairment	-	710	-	223	-	-	-	-	-	-	-	-
ADD: other expense (income)	(115)	(197)	(74)	(59)	(200)	(218)	(236)	(248)	(261)	(270)	(277)	(284)
ADD: Tax non-service pension / benefit	(196)	(201)	(342)	(330)	(286)	(254)	(222)	-	-	-	-	-
ADD: Tax debt extinguishment costs	-	-	114	-	-	-	-	-	-	-	-	-
ADD: Tax shield Interest expense, net	356	305	233	269	408	413	418	422	425	427	429	431
ADD: Tax on implied interest on operating leases	30	33	19	20	20	20	21	21	22	23	23	24
Total adjusted taxes	2,370	1,224	735	851	1,164	1,384	1,648	1,854	2,079	2,275	2,457	2,635
Change in deferred taxes	631	(1,236)	517	146	244	285	334	332	379	419	456	493
NOPLAT	6,843	(1,903)	4,424	4,296	5,695	6,766	8,051	9,014	10,111	11,069	11,958	12,831
Invested Capital (IC):												
Net Working Capital												
ADD: Normal Cash	5,683	4,174	4,749	5,072	5,604	6,114	6,617	7,014	7,370	7,632	7,846	8,042
ADD: Accounts receivable, net	13,524	9,254	9,661	12,777	14,116	15,401	16,669	17,670	18,566	19,226	19,765	20,259
ADD: Contract assets, current	4,184	9,931	11,361	5,257	5,808	6,337	6,859	7,270	7,639	7,911	8,132	8,336
ADD: Inventories and contracts in progress, net	10,950	9,411	9,178	10,542	11,647	12,708	13,754	14,579	15,318	15,863	16,308	16,715
ADD: Other current assets	1,461	5,978	4,018	4,173	4,173	4,173	4,173	4,173	4,173	4,173	4,173	4,173
LESS: Accounts payable	10,809	8,639	8,751	10,158	11,223	12,245	13,253	14,048	14,761	15,285	15,714	16,107
LESS: Accrued liabilities	11,737	13,407	12,820	13,311	14,706	16,045	17,366	18,409	19,342	20,030	20,591	21,106
LESS: Contract liabilities, current	6,180	12,889	13,720	6,958	7,687	8,387	9,078	9,623	10,111	10,470	10,764	11,033
Net working capital	7,076	3,813	3,676	7,394	7,731	8,055	8,375	8,627	8,853	9,019	9,155	9,280
ADD: Net PPE	12,755	14,962	14,972	15,139	15,527	15,924	16,330	16,745	17,169	17,603	18,048	18,503
ADD: Net Intangible Assets	26,046	40,539	38,516	36,519	34,423	32,249	30,188	28,211	26,326	24,528	22,813	21,178
ADD: Operating lease right-of-use asset	2,599	1,880	1,958	1,980	2,031	2,083	2,136	2,190	2,245	2,302	2,360	2,420
ADD: Other long-term assets	9,279	3,967	6,624	6,880	7,146	7,422	7,709	8,007	8,316	8,638	8,972	9,318
Less: Other long-term liabilities	17,370	9,537	10,417	10,820	11,238	11,672	12,123	12,592	13,079	13,584	14,109	14,654
Invested Capital:	40,385	55,624	55,329	57,092	55,620	54,061	52,614	51,188	49,831	48,507	47,239	46,045
Free Cash Flow (FCF):												
NOPLAT	6,843	(1,903)	4,424	4,296	5,695	6,766	8,051	9,014	10,111	11,069	11,958	12,831
Change in IC	92	15,239	(295)	1,763	(1,471)	(1,559)	(1,447)	(1,426)	(1,357)	(1,324)	(1,267)	(1,194)
FCF	6,751	(17,142)	4,719	2,533	7,166	8,326	9,498	10,441	11,468	12,393	13,225	14,026
Return on Invested Capital (ROIC):												
NOPLAT	6,843	(1,903)	4,424	4,296	5,695	6,766	8,051	9,014	10,111	11,069	11,958	12,831
Beginning IC	40,292	40,385	55,624	55,329	57,092	55,620	54,061	52,614	51,188	49,831	48,507	47,239
ROIC	17.0%	-4.7%	8.0%	7.8%	10.0%	12.2%	14.9%	17.1%	19.8%	22.2%	24.7%	27.2%
Economic Profit (EP):												
Beginning IC	40,292	40,385	55,624	55,329	57,092	55,620	54,061	52,614	51,188	49,831	48,507	47,239
x (ROIC - WACC)	9.6%	-12.1%	0.6%	0.4%	2.6%	4.8%	7.5%	9.8%	12.4%	14.8%	17.3%	19.8%
EP	3,873	(4,880)	323	217	1,486	2,666	4,065	5,136	6,338	7,395	8,382	9,349

Raytheon Technologies

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	3.87%
Beta	0.81
Equity Risk Premium	5.15%
Cost of Equity	8.06%

ASSUMPTIONS:

10-year Treasury bond
Average 2-yr weekly beta
Henry Fund ERP

Cost of Debt:

Risk-Free Rate	3.87%
Default Premium	1.55%
Pre-Tax Cost of Debt	5.42%
Marginal Tax Rate	18%
After-Tax Cost of Debt	4.47%

10-year Treasury bond
Spread of Raytheon's interpolated 10-yr yield over corresponding treasury

Market Value of Common Equity:

Total Shares Outstanding	1,502
Current Stock Price	\$94.53
MV of Equity	141,946

MV Weights

80.93%

Market Value of Debt:

Short-Term Debt	158
Current Portion of LTD	
Long-Term Debt	31,327
PV of Operating Leases	1,958
MV of Total Debt	33,443

19.07%

Market Value of the Firm

175,389

100.00%

Estimated WACC

7.37%

Raytheon Technologies

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.50%
CV Year ROIC	27.16%
WACC	7.37%
Cost of Equity	8.06%

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
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DCF Model:

Free Cash Flow (FCF)	2,533	7,166	8,326	9,498	10,441	11,468	12,393	13,225	14,026
Continuing Value (CV)									239,120
PV of FCF	2,359	6,216	6,726	7,146	7,316	7,484	7,532	7,486	135,357
Value of Operating Assets:	187,622								
Non-Operating Adjustments									
ADD: Excess cash	3,083								
ADD: Customer financing assets	2,916								
Less: Post-employment obligations	7,855								
Less: PV of Operating Leases	1,958								
Less: ESOP	66								
Less: NCI	1,596								
Less: Redeemable NCI	35								
Less: Total Debt excl. Op. Lease	31,485								
Value of Equity	150,627								
Shares Outstanding	1,502								
Intrinsic Value of Last FYE	100								
Implied Price as of Today	105.53								

EP Model:

Economic Profit (EP)	217	1,486	2,666	4,065	5,136	6,338	7,395	8,382	9,349
Continuing Value (CV)									191,881
PV of EP	202	1,289	2,153	3,059	3,599	4,136	4,495	4,744	108,617
Total PV of EP	132,293								
Invested Capital (last FYE)	55,329								
Value of Operating Assets:	187,622								
Non-Operating Adjustments									
ADD: Excess cash	3,083								
ADD: Customer financing assets	2,916								
Less: Post-employment obligations	7,855								
Less: PV of Operating Leases	1,958								
Less: ESOP	66								
Less: NCI	1,596								
Less: Redeemable NCI	35								
Less: Total Debt excl. Op. Lease	31,485								
Value of Equity	150,627								
Shares Outstanding	1,502								
Intrinsic Value of Last FYE	100								
Implied Price as of Today	105.53								

Raytheon Technologies

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
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EPS	\$ 2.30	\$ 3.65	\$ 4.31	\$ 5.12	\$ 5.12	\$ 5.92	\$ 6.63	\$ 7.30	\$ 7.97
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Key Assumptions

CV growth of EPS	2.50%
CV Year ROE	12.05%
Cost of Equity	8.06%

Future Cash Flows

P/E Multiple (CV Year)									14.26
EPS (CV Year)									\$ 7.97
Future Stock Price									\$ 113.63
Dividends Per Share	1.61	1.64	1.93	2.28	2.29	2.63	2.94	3.22	
Discounted Cash Flows	1.49	1.41	1.53	1.67	1.55	1.65	1.71	1.73	61.13

Intrinsic Value as of Last FYE \$ 73.88

Implied Price as of Today \$ 77.72

Raytheon Technologies

Relative Valuation Models

Ticker	Company	Price	EPS 2022E	EPS 2023E	P/E 22	P/E 23	TEV	2023E EBITDA	TEV/ EBITDA
LMT	Lockheed Martin	\$472.77	\$21.68	\$27.14	21.81	17.42	123,901	9,887	12.53
BA	Boeing	\$172.78	(\$6.47)	\$4.56	(26.73)	37.87	102,974	7,242	14.22
NOC	Northrop Grumman	\$518.85	\$24.64	\$23.79	21.06	21.81	79,857	5,234	15.26
GD	General Dynamics	\$246.52	\$12.18	\$14.14	20.24	17.44	67,682	5,656	11.97
LHX	L3Harris Technologies	\$221.50	\$5.90	\$10.19	37.54	21.74	42,174	3,680	11.46
TXT	Textron Industries	\$69.39	\$4.09	\$4.53	16.99	15.33	14,487	1,682	8.61
HII	Huntington Ingalls	\$224.02	\$14.23	\$14.83	15.75	15.10	8,939	1,037	8.62
Average					22.23	18.14			11.97

RTX	Raytheon Technologies	\$94.53	\$2.30	\$3.65	41.1	25.9	169,153	10,628	15.92
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Implied Relative Value:

P/E (EPS22)	\$	51.19
P/E (EPS23)	\$	66.20
Median TEV/EBITDA	\$	70.15

Raytheon Technologies
Present Value of Operating Lease Obligations

Fiscal Years Ending Dec. 31	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Year 1	515.0	646.0	586.0	593.0	529.0	462.0	498.0	683.0												
Year 2	404.0	510.0	494.0	479.0	391.0	354.0	430.0	544.0												
Year 3	292.0	378.0	364.0	340.0	285.0	286.0	325.0	407.0												
Year 4	184.0	255.0	233.0	235.0	207.0	209.0	221.0	301.0												
Year 5	115.0	158.0	156.0	171.0	133.0	145.0	143.0	235.0												
Thereafter	373.0	539.0	540.0	707.0	638.0	638.0	635.0	746.0												
Total Minimum Payments	1883.0	2486.0	2373.0	2525.0	2183.0	2094.0	2252.0	2916.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: Cumulative Interest	301.1	412.9	401.7	464.4	412.2	403.8	421.1	515.6	-2599.0	-1880.0	-1958.0	-1979.8	-2030.6	-2082.5	-2135.6	-2189.8	-2245.3	-2302.1	-2360.3	-2419.8
PV of Minimum Payments	1581.9	2073.1	1971.3	2060.6	1770.8	1690.2	1830.9	2400.4	2599.0	1880.0	1958.0	1979.8	2030.6	2082.5	2135.6	2189.8	2245.3	2302.1	2360.3	2419.8
Implied Interest in Year 1 Payment		90.3	118.4	112.6	117.7	101.1	96.5	104.5	137.1	148.4	107.3	111.8	113.0	115.9	118.9	121.9	125.0	128.2	131.5	134.8
Pre-Tax Cost of Debt	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%
Years Implied by Year 6 Payment	3.2	3.4	3.5	4.1	4.8	4.4	4.4	3.2												
Expected Obligation in Year 6 & Beyond	115	158	156	171	133	145	143	235	0	0	0	0	0	0	0	0	0	0	0	0
Present Value of Lease Payments																				
PV of Year 1	487.2	611.1	554.3	561.0	500.4	437.0	471.1	646.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of Year 2	361.5	456.4	442.1	428.7	349.9	316.8	384.8	486.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of Year 3	247.2	320.0	308.1	287.8	241.3	242.1	275.1	344.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of Year 4	147.4	204.2	186.6	188.2	165.8	167.4	177.0	241.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of Year 5	87.1	119.7	118.2	129.5	100.8	109.8	108.3	178.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of 6 & beyond	251.5	361.8	361.9	465.4	412.6	417.0	414.6	503.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalized PV of Payments	1581.9	2073.1	1971.3	2060.6	1770.8	1690.2	1830.9	2400.4	2599.0	1880.0	1958.0	1,980	2,031	2,083	2,136	2,190	2,245	2,302	2,360	2,420

Raytheon Technologies

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	2
Average Time to Maturity (years):	4.30
Expected Annual Number of Options Exercised:	0.43

Current Average Strike Price:	\$ 78.36
Cost of Equity:	8.06%
Current Stock Price:	\$94.53

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
Increase in Shares Outstanding:	0.43	0.43	0.43	0.43	0.13					
Average Strike Price:	\$ 78.36	\$ 78.36	\$ 78.36	\$ 78.36	\$ 78.36					
Increase in Common Stock Account:	33.69	33.69	33.69	33.69	10.11					
Share Repurchases (\$)	2,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	
Expected Price of Repurchased Shares:	\$ 94.53	\$ 100.14	\$ 106.09	\$ 112.38	\$ 119.05	\$ 126.12	\$ 133.61	\$ 141.54	\$ 149.94	\$ 158.84
Number of Shares Repurchased:	26	15	14	13	13	12	11	11	10	9
Shares Outstanding (beginning of the year)	1,502	1,476	1,461	1,447	1,434	1,422	1,410	1,399	1,388	1,378
Plus: Shares Issued Through ESOP	0	0	0	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	26	15	14	13	13	12	11	11	10	9
Shares Outstanding (end of the year)	1,476	1,461	1,447	1,434	1,422	1,410	1,399	1,388	1,378	1,369

Raytheon Technologies

Valuation of Options Granted under ESOP

Current Stock Price	\$94.53
Risk Free Rate	3.87%
Current Dividend Yield	2.12%
Annualized St. Dev. of Stock Returns	40.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	1.85	78.36	4.30	\$ 35.66	\$ 66
Total	2	\$ 78.36	4.30	\$ 41.98	\$ 66

Raytheon Technologies
Sensitivity Tables

DCF		CV Growth NOPLAT						
105.53		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
Risk-Free Rate	3.12%	102.91	109.84	118.26	128.72	142.04	159.59	183.78
	3.37%	97.39	103.57	111.01	120.14	131.62	146.49	166.51
	3.62%	92.31	97.83	104.43	112.45	122.42	135.13	151.90
	3.87%	87.62	92.57	98.45	105.53	114.23	125.18	139.38
	4.12%	83.26	87.72	92.98	99.26	106.90	116.39	128.52
	4.37%	79.22	83.24	87.96	93.55	100.29	108.58	119.02
	4.62%	75.45	79.09	83.33	88.33	94.30	101.58	110.63

DCF		LTD %						
105.53		9.93%	14.93%	19.93%	24.93%	29.93%	34.93%	39.93%
2026 - 2030 R&D %	2.58%	119.80	119.62	119.45	119.27	119.09	118.92	118.74
	3.08%	115.22	115.04	114.87	114.69	114.51	114.34	114.16
	3.58%	110.64	110.46	110.29	110.11	109.93	109.76	109.58
	4.08%	106.06	105.88	105.71	105.53	105.35	105.18	105.00
	4.58%	101.48	101.30	101.13	100.95	100.77	100.59	100.42
	5.08%	96.90	96.72	96.55	96.37	96.19	96.01	95.84
	5.58%	92.32	92.14	91.96	91.79	91.61	91.43	91.26

DCF		Equity Risk Premium						
105.53		3.65%	4.15%	4.65%	5.15%	5.65%	6.15%	6.65%
Default Premium	0.80%	144.60	130.87	119.17	109.08	100.28	92.54	85.68
	1.05%	142.72	129.27	117.79	107.88	99.22	91.60	84.84
	1.30%	140.88	127.70	116.44	106.69	98.18	90.68	84.01
	1.55%	139.08	126.16	115.11	105.53	97.15	89.76	83.19
	1.80%	137.31	124.65	113.80	104.38	96.14	88.86	82.38
	2.05%	135.58	123.17	112.51	103.26	95.15	87.97	81.59
	2.30%	133.88	121.71	111.25	102.15	94.16	87.10	80.80

DDM		CV Growth of EPS						
77.72		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
2026 - 2030 SG&A %	8.58%	80.64	82.74	85.20	88.10	91.57	95.80	101.07
	9.08%	77.76	79.70	81.97	84.64	87.84	91.74	96.60
	9.58%	74.89	76.67	78.74	81.18	84.11	87.68	92.13
	10.08%	72.01	73.63	75.51	77.72	80.38	83.62	87.66
	10.58%	69.14	70.59	72.28	74.27	76.65	79.56	83.19
	11.08%	66.27	67.55	69.05	70.81	72.92	75.50	78.72
	11.58%	63.39	64.51	65.81	67.35	69.20	71.44	74.25

DCF		CAPEX Growth %						
105.53		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
COGS Synergy %	0.20%	85.34	84.90	84.45	83.99	83.52	83.04	82.55
	0.30%	92.52	92.08	91.63	91.17	90.70	90.22	89.73
	0.40%	99.70	99.26	98.81	98.35	97.88	97.40	96.91
	0.50%	106.88	106.44	105.99	105.53	105.06	104.58	104.09
	0.60%	114.06	113.62	113.17	112.71	112.24	111.76	111.27
	0.70%	121.25	120.80	120.35	119.89	119.42	118.94	118.45
	0.80%	128.43	127.98	127.53	127.07	126.60	126.12	125.63

DCF		Marginal Tax Rate						
105.53		10.10%	12.60%	15.10%	17.60%	20.10%	22.60%	25.10%
Beta	0.51	160.05	157.09	154.08	151.03	147.92	144.77	141.56
	0.61	141.15	138.39	135.60	132.76	129.88	126.96	123.99
	0.71	125.71	123.13	120.52	117.88	115.20	112.49	109.74
	0.81	112.85	110.44	108.00	105.53	103.03	100.50	97.94
	0.91	101.96	99.70	97.41	95.10	92.77	90.40	88.01
	1.01	92.63	90.50	88.35	86.18	83.99	81.77	79.53
	1.11	84.53	82.53	80.50	78.46	76.39	74.31	72.20

Raytheon Technologies

Key Management Ratios

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Liquidity Ratios:												
Current Ratio (Current Assets/Current Liabilities)	1.08	1.21	1.19	1.41	1.46	1.52	1.58	1.64	1.71	1.79	1.87	1.97
Quick Ratio (Total Current Assets - Inventory/Current Liabilities)	0.77	0.95	0.93	1.09	1.14	1.20	1.26	1.32	1.38	1.46	1.55	1.64
Cash Ratio (Cash & Equivalents/Current Liabilities)	0.21	0.25	0.22	0.43	0.48	0.55	0.61	0.67	0.74	0.82	0.91	1.01
Asset-Management Ratios:												
Total Asset Turnover (Sales/Total Assets)	0.56	0.37	0.40	0.42	0.46	0.48	0.50	0.52	0.53	0.53	0.53	0.53
Inventory Turnover (Sales/Inventory)	7.33	5.56	6.93	6.97	6.85	6.81	6.78	6.71	6.68	6.64	6.61	6.60
NWC Turnover (Sales/NWC)	9.30	14.15	15.11	11.63	9.09	9.63	10.09	10.55	10.88	11.18	11.39	11.54
Accounts Receivable Turnover	5.70	6.11	6.66	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Financial Leverage Ratios:												
Debt-to-Equity (Total Debt/Total Equity)	0.98	0.43	0.42	0.55	0.54	0.53	0.51	0.50	0.48	0.46	0.44	0.42
Equity Multiplier (Total Assets/Total Equity)	3.15	2.19	2.16	2.23	2.24	2.24	2.23	2.22	2.19	2.15	2.11	2.06
Degree of Financial Leverage (EBIT/EBIT-Interest)	1.23	(0.69)	1.40	1.44	1.54	1.43	1.34	1.29	1.26	1.23	1.21	1.20
Profitability Ratios:												
Return on Equity (NI/Beg TSE)	14.40%	-7.44%	5.40%	4.65%	7.44%	8.54%	9.79%	9.37%	10.41%	11.13%	11.65%	12.05%
Return on Assets (NI/Beg. Total Assets)	4.13%	-2.23%	2.40%	2.11%	3.26%	3.69%	4.21%	4.02%	4.48%	4.82%	5.12%	5.38%
ROIC (NOPLAT/Beg. IC)	16.98%	-4.71%	7.95%	7.76%	9.97%	12.16%	14.89%	17.13%	19.75%	22.21%	24.65%	27.16%
EBIT Margin (EBIT/Sales)	11.14%	0.99%	7.21%	7.27%	8.71%	9.49%	10.44%	11.08%	11.82%	12.49%	13.12%	13.73%
Profit Margin	7.19%	-5.49%	6.05%	4.94%	7.02%	7.53%	8.19%	7.65%	8.35%	8.96%	9.53%	10.07%
Gross Margin	29.77%	21.95%	26.03%	26.10%	27.86%	28.36%	28.87%	29.37%	29.87%	30.37%	30.87%	31.37%
Coverage Ratios												
Interest Coverage Ratio (EBIT/Interest Expense)	5.33	0.41	3.51	3.27	2.85	3.35	3.94	4.40	4.89	5.32	5.72	6.12
Total Debt-to-EBITDA (Total Debt/EBITDA)	3.78	7.15	3.53	4.43	3.83	3.43	3.10	2.88	2.68	2.52	2.38	2.26
Asset Coverage (Total Assets - ST Liabilities/Total Debt)	2.41	3.97	4.00	3.24	3.25	3.27	3.31	3.36	3.42	3.51	3.61	3.72
Payout Ratios												
Total Payout Ratio (Divs + Repurchases)/NI	0.71	(1.36)	1.14	0.70	0.45	0.45	0.45	0.45	0.44	0.44	0.44	0.44
Dividend Payout Ratio	0.44	(0.88)	0.76	0.70	0.45	0.45	0.45	0.45	0.44	0.44	0.44	0.44