

**BUY**

**RTX CORP (RTX)**

**04.22.2024**

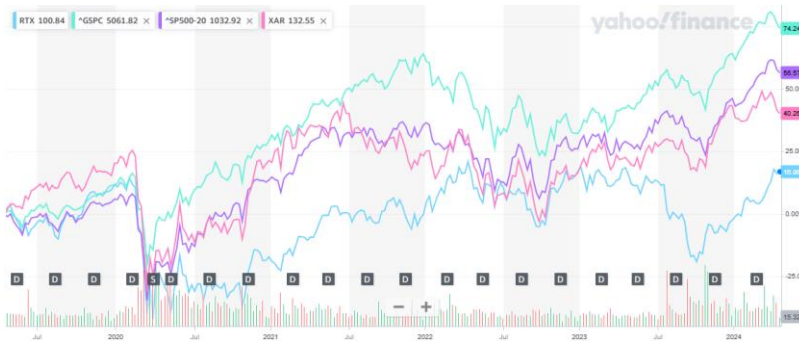
**Investment Thesis**

I recommend a buy on RTX Corp. Though RTX has exhibited below average returns over the past few years, the projects that are in development have significant profit potential. RTX is heavily invested in R&D and a massive part of their strategy is to be innovative. With that said, it makes sense that they have years where they don't perform as well as others. RTX is looking for long term projects to become key drivers of revenue in the future. Some of those projects are coming within the next few years and investing in RTX while the stock is at a significant discount will provide high returns for the Wisman Fund in the future.

**Drivers of Thesis**

- RTX is significantly undervalued based upon absolute valuation analysis.
- RTX has numerous projects across Collins Aerospace, Pratt & Whitney, and Raytheon that are likely to provide significant returns in the next few years.
- RTX's Pratt and Whitney has increased demand for their GTF engines powering numerous aircrafts in the U.S and Canada.
- RTX is in a prime position to become a big winner over the next few years.

**Five Year Performance**



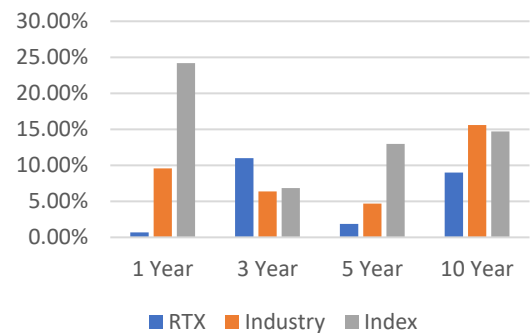
- The blue line displays RTX
- The green line displays the S&P 500
- The purple line displays the Industrials Sector
- The pink line displays XAR (SPDR Aerospace & Defense ETF)

Data Source: Yahoo Finance

**RTX Corp.**

|            |                     |
|------------|---------------------|
| NYSE       | RTX                 |
| Price      | \$100.71            |
| Fair Value | \$112.00            |
| Sector     | Industrials         |
| Industry   | Aerospace & Defense |

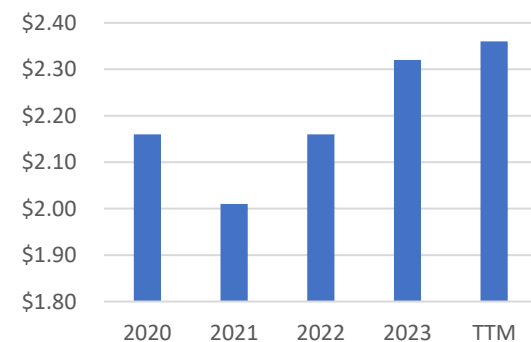
**Trailing Returns**



**Key Statistics**

|                      |             |
|----------------------|-------------|
| Market Cap           | \$134.0814B |
| Shares Outstanding   | 1.32964B    |
| EBITDA (TTM)         | \$9.60B     |
| Five Year Beta       | 1.05        |
| Dividend Yield       | 2.33%       |
| Price/Earnings (TTM) | 45.18       |
| Price/Sales (TTM)    | 2.10        |
| Price/Book (TTM)     | 2.24        |

**Annual Dividend Per Share**



Data Source: Morningstar.com (Besides Beta Value – From Value Line Investment Survey)

## COMPANY SUMMARY

RTX Corp. is a diversified aerospace and defense company that actively participates across numerous subindustries in the industrials sector. RTX is broken down into three segments: including Raytheon (Aerospace & Defense), Pratt & Whitney (Aviation Systems & Defense), and Collins (Aerospace). These three segments were combined to create RTX. Raytheon focuses on improving air, land, and sea vehicles, also working on space solutions, missile & air defense, and advanced technology. Pratt & Whitney focuses on engine production and aftermarket maintenance services for aircrafts including military aircrafts. Collins Aerospace focuses on creating better aircrafts, in a way that makes them better for the environment, more efficient, and safer for military and civilian transport.

The company formerly known as Raytheon became RTX three years after their merger with United Technologies in 2020. The merger with United Technologies furthered RTX's capabilities to become a more significant player in the industry. The merger was a large investment for what would eventually become RTX. The expected result of this merger according to RTX, was to "create the world's most advanced aerospace and defense systems provider, serve customers worldwide, and introduce breakthrough technologies that would provide great strides in commercial aerospace and defense."

### Business Segments

#### Raytheon

Raytheon stands out as a prominent provider of both offensive and defensive technologies, catering to a diverse range of customers including government entities and commercial clients. Their offerings encompass a wide spectrum of capabilities, spanning integrated air and missile defense systems, smart weapons, advanced sensors and radars, interceptors, and space-based systems. Across various domains - land, air, sea, and space - Raytheon delivers solutions like air-to-air and air-to-ground sensors, command and control systems, and a suite of weapons such as the Advanced Medium Range Air-to-Air Missile (AMRAAM) and the StormBreaker smart weapon.

In the naval sector, Raytheon offers advanced sensors, command and control systems, and weaponry including shipboard missiles like the Tomahawk and Standard Missile 6 (SM-6). Their portfolio, extends to air-to-air missiles such as the AIM-9X

SIDEWINDER missile, integrated systems like the SPY-6 radar, and a range of defense products like the Patriot air and missile defense system and the National Advanced Surface-to-Air Missile System (NASAMS). Additionally, Raytheon provides cutting-edge technologies in the form of sensors, satellites, and interceptors, with a focus on space solutions encompassing mission orchestration, satellite control, and software development.

As a significant contractor for the U.S. Department of Defense (DoD), Raytheon plays a crucial role in various defense programs across the U.S. military branches and federal civil agencies. In 2023, the company marked significant milestones and contract wins across several programs, including the Naval Strike Missile (NSM), StormBreaker smart weapon, AIM-9X and AMRAAM programs, and advanced technologies like hypersonics and counter-hypersonics. Notable contract awards included supplying Guidance Enhanced Missiles (GEM-T) to NATO, Patriot Air Defense systems to Switzerland, and Next Generation Jammer Mid-Band (NGJ-MB) systems for the U.S. Navy and Australia. These achievements underscore Raytheon's commitment to innovation and its pivotal role in advancing defense capabilities both domestically and internationally.

#### Pratt & Whitney

Pratt & Whitney maintains its position as a global leader in aircraft engine manufacturing, catering to a diverse clientele including commercial, military, business jet, and general aviation sectors. Its comprehensive offerings encompass large engines for various aircraft types, ranging from wide- and narrow-body commercial planes to military fighter jets and bombers. Notably, Pratt & Whitney Canada specializes in engines for regional airlines, general aviation, and helicopters. The company also provides auxiliary power units and offers fleet management and aftermarket services across its product segments.

Sales primarily target aircraft manufacturers, airlines, leasing companies, and government entities, with Airbus being the largest commercial customer. The PW1000G Geared Turbofan (GTF) engine family, known for its fuel efficiency and reduced emissions, powers aircraft like

the Airbus A320neo, A220, and Embraer E-Jets E2. Pratt & Whitney also supplies the F135 engine for the F-35 Lightning II program and is contracted to produce engines for the U.S. Air Force's B-21 long-range strike bomber.

In 2023, Pratt & Whitney achieved significant milestones with the GTF engine program, surpassing 1.4 billion gallons of fuel saved and 14 million metric tons of carbon emissions avoided since inception. The GTF Advantage configuration promises further enhancements in thrust and fuel efficiency, maintaining its position as a leading powerplant. Additionally, Pratt & Whitney expanded its engine portfolio with certifications like the PW127XT-L for the ATR turboprop and secured contracts for sustainment and upgrades across various engine fleets, including the F135 program for the F-35.

Financially, Pratt & Whitney continues to invest in research and development, collaborating with third parties to share costs and risks associated with new engine developments. Sales data reflects significant contributions from key customers like Airbus, with segment sales figures reflecting steady growth and market presence. The company's focus on innovation, environmental sustainability, and strategic partnerships highlights its commitment to advancing aviation technology and meeting evolving industry demands.

### Collins Aerospace

Collins Aerospace stands as a prominent global supplier of advanced aerospace and defense products and aftermarket services, serving a wide array of customers in civil and military aviation, as well as commercial and defense space operations. Their offerings span a diverse range of technologies, including electric power systems, environmental control systems, flight control systems, communication and navigation systems, and complete cabin interiors. They also provide solutions for human space exploration, connected aviation, and government defense missions, covering everything from connected battlespace systems to simulation and training solutions.

Sales primarily target aircraft manufacturers, airlines, governments, defense contractors, and maintenance providers globally. Notably, Boeing and Airbus are their largest commercial customers. In 2023, Collins Aerospace secured key positions on Boeing's X-66A sustainable flight demonstrator aircraft and entered into significant long-term agreements with global airlines valued at \$3.5 billion. They also received multiple contract awards

for airline equipment installation and maintenance agreements. Collins was selected for critical roles in various aircraft development programs, including Airbus A321XLR, Boeing 777X and 737 MAX 10, and Dassault Falcon 6X.

In terms of technological advancements, Collins Aerospace continues to invest in sustainable technologies, such as opening an electric airborne power research center and developing prototype cooling systems for potential F-35 block upgrades. Their commitment to innovation and sustainability displays their dedication to advancing aviation technology and meeting the evolving needs of the industry.

### Recent Developments

#### Raytheon

Raytheon has achieved a significant milestone in its Visible Infrared Imaging Radiometer Suite (VIIRS) sensor program. The VIIRS instrument, crucial for collecting global environmental data across various wavelengths, is part of the NASA-NOAA Joint Polar Satellite System (JPSS). The latest sensor, J4, completed Thermal Vacuum tests ahead of schedule in late 2023, ensuring timely integration into satellites in 2024.

Sandy Brown, president of Raytheon's Space Systems division, praised the successful testing, citing it as the most efficient cycle in the program's history. The collaboration between NASA and Raytheon facilitated seamless execution.

JPSS, NASA's polar-orbiting environmental satellite system, relies on VIIRS to provide high-resolution multispectral imagery for various applications such as fire and air quality monitoring, agriculture monitoring, and flood mapping. Raytheon has been instrumental in designing, building, and delivering four VIIRS instruments since 2010.

#### Pratt & Whitney

Pratt & Whitney disclosed a \$20 million investment aimed at expanding the maintenance, repair, and overhaul (MRO) capacity of its West Palm Beach Engine Center for the Geared Turbofan (GTF) engine. This expansion, expected to be completed by the second half of 2025, will boost capacity by 40%. To accommodate this growth, the facility plans to increase its workforce by 25% and acquire essential

equipment, leveraging transformative technologies developed at the North American Technology Accelerator.

Kevin Kirkpatrick, VP of Global Aftermarket Operations at Pratt & Whitney, emphasized the company's dedication to supporting the GTF fleet and maintaining customer trust. The West Palm Beach facility, fully equipped for GTF MRO since mid-2021, has already demonstrated significant improvements in efficiency and turnaround time, thanks to automation and process enhancements.

In 2023, Pratt & Whitney announced expansions and activations at multiple GTF MRO facilities globally, reflecting the growing demand for GTF engine maintenance services. With 16 active centers worldwide and three more expected by 2025, Pratt & Whitney is strategically positioning itself to meet the increasing needs of the GTF fleet.

### Stock Performance

RTX, despite significant underperformance relative to the S&P 500, the Industrials Sector, and XAR (SPDR Aerospace & Defense ETF) over the past 5 years is appearing to be becoming equipped to outperform over the next few years. The YTD performance of RTX is the start of the shift from underperformance to outperformance. RTX (blue) has achieved a YTD return of 19.7% compared to the S&P 500's (green) 5.3%, the Industrials Sector's (purple) 6.3%, and XAR's (pink) -2.4% YTD returns. (Data as of April 17, 2024)



Data Source: Yahoo Finance

Notably in 2023, Pratt & Whitney had a GTF engine recall that cost \$2.9B, which negatively impacted their stock price. Since then, they have managed to take the appropriate steps to mend their client relationships and are working to make the engine function as intended. The stock price has shot back up this year and this can be expected to continue into the future.

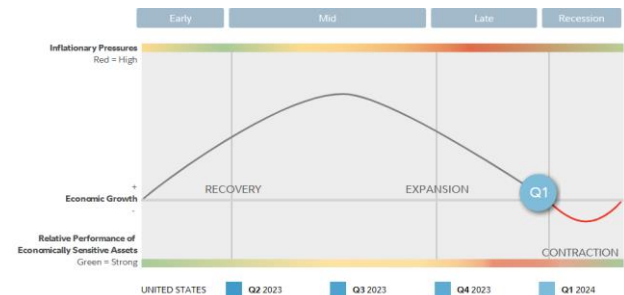
## INVESTMENT THESIS

The investment thesis is based on a top-down analysis of economic drivers, sales and sales forecasts, financial analysis, and a 2-stage Free Cash Flow to Equity Discount Model to estimate fair value.

### Economic Drivers

#### Economic Analysis

According to Fidelity, the U.S economy has remained in the late expansion stage of the economic cycle during Q1 2024.



Data Source: Fidelity.com

The Industrials sector according to the business cycle is supposed to perform relatively neutral during the late expansion stage as seen below.

#### Business cycle

Historical performance of sectors during business cycle phases.

| Sector      | Early | Mid | Late | Recession |
|-------------|-------|-----|------|-----------|
| Financials  | +     |     |      | -         |
| Real Estate | ++    | -   | +    | --        |
| Cons. Disc. | ++    |     | --   |           |
| Info Tech.  | +     | +   | -    | --        |
| Industrials | ++    |     |      | --        |
| Materials   | +     | --  |      | -         |
| Cons. Stap. | --    | -   | +    | ++        |
| Health Care | --    |     |      | ++        |
| Energy      | --    |     | ++   | --        |
| Comm. Serv. |       | +   |      | -         |
| Utilities   | --    | -   | +    | ++        |

Data Source: Fidelity.com

### GDP

As reported by the FED in December 2023, change in GDP was projected to be 1.4 and in March of 2024 it was reported to be 2.1. Change in GDP beat the estimate by a solid margin, indicating that economic growth has not slowed down as much as they thought it would. The idea of a recession in the short term has been pushed back, leaving investors wondering when there will be a recession if there will be one in the future.

### Unemployment

The unemployment rate in March of 2024 is down slightly from the December 2023 estimate of 4.1% at 4.0%. The labor market has remained strong and most of the population is working. This has resulted in more purchases because consumers have the money to spend on goods and services despite inflation.

### Inflation

The Core PCE inflation rate is projected to decrease throughout the rest of 2024 from 2.6% to 2.4% by December 2024. This is a good sign for the economy as prices will continue to decrease back to more normal levels which will continue to drive economic growth.

| Variable                                | Median <sup>1</sup> |      |      |            | Central Tendency <sup>2</sup> |         |         |            | Range <sup>3</sup> |         |         |
|---|---------------------|------|------|------------|-------------------------------|---------|---------|------------|--------------------|---------|---------|
|   | 2024                | 2025 | 2026 | Longer run | 2024                          | 2025    | 2026    | Longer run | 2024               | 2025    | 2026    |
| Change in real GDP                      | 2.1                 | 2.0  | 2.0  | 1.8        | 2.0-2.4                       | 1.9-2.3 | 1.8-2.1 | 1.7-2.0    | 1.3-2.7            | 1.7-2.5 | 1.7-2.5 |
| December projection                     | 1.4                 | 1.8  | 1.9  | 1.8        | 1.2-1.7                       | 1.5-2.0 | 1.8-2.0 | 1.7-2.0    | 0.8-2.5            | 1.4-2.5 | 1.6-2.5 |
| Unemployment rate                       | 4.0                 | 4.1  | 4.0  | 4.1        | 3.9-4.1                       | 3.9-4.2 | 3.9-4.3 | 3.8-4.3    | 3.8-4.5            | 3.7-4.3 | 3.7-4.3 |
| December projection                     | 4.1                 | 4.1  | 4.1  | 4.1        | 4.0-4.2                       | 4.0-4.2 | 3.9-4.3 | 3.8-4.3    | 3.9-4.5            | 3.8-4.7 | 3.8-4.7 |
| PCE inflation                           | 2.4                 | 2.2  | 2.0  | 2.0        | 2.3-2.7                       | 2.1-2.2 | 2.0-2.1 | 2.0        | 2.2-2.9            | 2.0-2.5 | 2.0-2.3 |
| December projection                     | 2.4                 | 2.1  | 2.0  | 2.0        | 2.2-2.5                       | 2.0-2.2 | 2.0     | 2.0        | 2.1-2.7            | 2.0-2.5 | 2.0-2.3 |
| Core PCE inflation <sup>4</sup>         | 2.6                 | 2.2  | 2.0  |            | 2.5-2.8                       | 2.1-2.3 | 2.0-2.1 |            | 2.4-3.0            | 2.0-2.6 | 2.0-2.3 |
| December projection                     | 2.4                 | 2.2  | 2.0  |            | 2.4-2.7                       | 2.0-2.2 | 2.0-2.1 |            | 2.3-3.0            | 2.0-2.6 | 2.0-2.3 |
| Memo: Projected appropriate policy path |                     |      |      |            |                               |         |         |            |                    |         |         |
| Federal funds rate                      | 4.6                 | 3.9  | 3.1  | 2.6        | 4.6-5.1                       | 3.4-4.1 | 2.6-3.4 | 2.5-3.1    | 4.4-5.4            | 2.6-5.4 | 2.4-4.9 |
| December projection                     | 4.6                 | 3.6  | 2.9  | 2.5        | 4.4-4.9                       | 3.1-3.9 | 2.5-3.1 | 2.5-3.0    | 3.9-5.4            | 2.4-5.4 | 2.4-4.9 |

Data Source: www.federalreserve.gov

Another factor to note is the inverted yield curve that U.S Treasuries have experienced between the 10-Year T-Note and the 3-M T-Bill over the past year. An inverted yield curve can be a signal of a recession in the short term according to historical data.

(Note: Recessions are represented by the gray shaded areas on the graph)



Data Source: fred.stlouisfed.org

As the graph displays, historically, after an inverted yield curve a recession follows soon after. However, looking at more recent data it can be seen that the inverted yield curve is starting to correct itself as the 10-Y T-Note rate is increasing faster than the 3-M T-Bill rate. This is a good sign for the economy, the potential for a recession in the near future is decreasing.

### Industrials Sector

The industrials sector encompasses a wide array of businesses involved in manufacturing, construction, transportation, and other infrastructure-related activities. This sector is integral to the functioning of modern economies, providing essential goods and services that support various industries and facilitate economic growth.

Within the industrials sector, companies engage in manufacturing diverse products such as machinery, equipment, chemicals, and industrial materials. These firms often supply essential components for sectors like automotive, electronics, and construction, driving productivity and efficiency across the supply chain. Additionally, companies within this sector may offer engineering, construction, and infrastructure development services, contributing to the building of roads, bridges, airports, and other vital infrastructure projects.

Transportation and logistics are also significant components of the industrials sector, with companies operating railways, airlines, shipping fleets, and logistics networks. These firms play a crucial role in facilitating global trade and commerce, ensuring the efficient movement of goods and people across borders.

Overall, the industrials sector serves as a vital source of economic activity, providing the foundation for manufacturing, construction, and transportation infrastructure essential for societal progress and prosperity.

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The industrials sector typically underperforms the S&P 500. Notably, 2024 YTD return (As of April 17, 2024) shows the industrials sector (blue) outperforms the S&P 500 (green) by 1%, with YTD returns of 6.3% and 5.3% respectively. Also, the industrials sector holds a weight of 8.8% within the S&P 500 as of March 28, 2024, according to S&P Global.



Data Source: Yahoo Finance

### Aerospace & Defense Industry

The aerospace and defense industry encompasses a diverse range of activities related to the design, manufacturing, and maintenance of aircraft, spacecraft, and defense systems. This sector plays a critical role in both civilian and military contexts, driving technological innovation and contributing significantly to national security and economic development.

In the aerospace segment, companies are involved in the production of commercial and military aircraft, as well as helicopters, drones, and related components. These firms often collaborate with airlines, government agencies, and research institutions to develop advanced technologies aimed at enhancing safety, fuel efficiency, and passenger comfort. Additionally, space exploration has emerged as a major focus within the aerospace industry, with companies competing to launch satellites, explore celestial bodies, and eventually establish human settlements beyond Earth.

In the defense sector, companies specialize in manufacturing weapons, military vehicles, communication systems, and other equipment for national armed forces and allied nations. These firms work closely with government agencies to address evolving security threats, develop cutting-edge defense capabilities, and support military operations worldwide. The aerospace and defense industry thus serves as a cornerstone of modern civilization, driving innovation, bolstering national

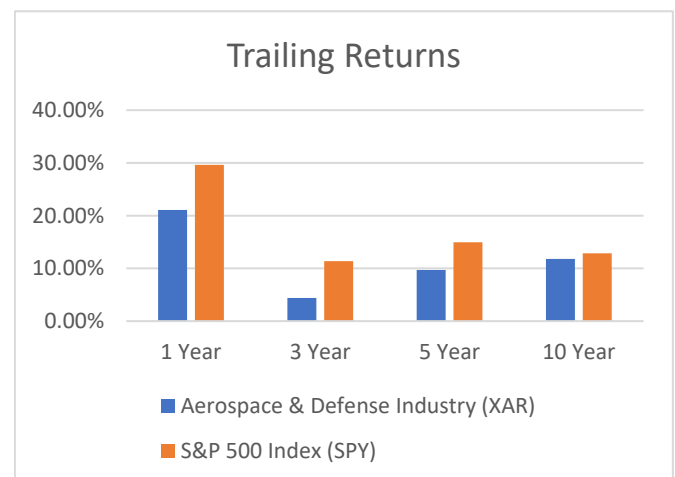
security, and shaping the future of humanity's exploration of the skies and beyond.

The aerospace & defense industry is underperforming the industrials sector as well as the S&P 500 YTD. The industry has a YTD return of -2.4% (As of April 17, 2024). YTD returns of the industrials sector (blue), the S&P 500 (green) and a diversified aerospace and defense ETF XAR (purple) are displayed in the graph below.



Data Source: Yahoo Finance

The aerospace & defense industry underperforms the S&P 500 over a longer period of time. This is likely due to the rapid expansion of tech, which the aerospace & defense industry has yet to reach. There is a large market for aerospace and defense, and under the right circumstances the industry can perform very well. There has been uncertainty in a couple of areas including global conflict and U.S. government budgeting. The graph below compares 1 Year, 3 Year, 5 Year, and 10 Year returns of XAR and SPY. (Returns are on a monthly basis)



Data Source: Yahoo Finance

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## Company Specific Factors

RTX is in a unique position given that they are a very diversified company within the aerospace & defense industry. Many companies within the industry are more tunnel visioned on a specific product or service. This immense concentration into one or few products/services could be seen as a concern as those companies would likely make great progress on those products/services that are in direct competition with RTX. However, RTX, though very diversified in the products/services they provide, have teams dedicated to each of the 3 segments which neutralizes the threat of concentration by other competitors.

Pratt & Whitney has identified a rare issue with the powder metal used in manufacturing certain engine parts for the PW1100 GTF fleet, which powers the A320neo aircraft. This discovery led to accelerated inspections and engine removals for a subset of operational engines, with further assessments resulting in an updated fleet management plan for the remaining PW1100 fleet. This plan involves a combination of part inspections and retirements for affected parts, with guidance provided to operators through service bulletins and special instructions. The actions are expected to lead to a significant increase in shop visits through 2026, resulting in higher aircraft on ground levels for the PW1100 fleet.

As a result of these anticipated disruptions and the need for customer compensation, Pratt & Whitney recorded a pre-tax operating profit charge of \$2.9 billion in the third quarter of 2023. This charge reflects the estimated costs of customer compensation and additional maintenance expenses, impacting the company's long-term maintenance contracts. The financial impact is outlined in the Consolidated Statement of Operations, with a reduction in sales offset by a net reduction of cost of sales, resulting in an increase in accrued liabilities primarily related to expected customer compensation. While other engine models within Pratt & Whitney's fleet may contain parts manufactured with affected powder metal, the company does not anticipate significant financial impacts beyond those associated with the PW1100 program. However, the actual costs and financial implications are subject to various factors and assumptions, which could affect the estimates presented in the company's financial statements.

Despite the powder metal issue at Pratt & Whitney, RTX maintains a strong position to capitalize on the expanding commercial aerospace and defense industry. The company remains focused on strategic investments in cutting-edge technology and increased capacity, aiming to achieve its adjusted annual sales growth commitment of 6 to 7 percent from 2020 to 2025. Furthermore, these investments are expected to sustain long-term growth beyond 2025.

## Aerospace & Defense and The U.S. Government

The delayed provision of the U.S. government's budget for aerospace & defense inevitably casts a shadow of uncertainty over the industry, affecting planning, investment decisions, and overall stability. Without a clear budget in place, aerospace & defense companies may face challenges in forecasting revenue streams, allocating resources, and executing long-term strategic initiatives. This uncertainty can lead to delays in major projects, disruptions in supply chains, and potential layoffs as companies adopt a cautious approach to expenditure amidst the uncertainty.

However, despite the delays in budget allocation, the aerospace & defense industry is able to maintain operations to a certain extent through existing government contracts. These contracts provide a steady stream of revenue and ensure ongoing projects can continue with some limitations. While new initiatives and expansions may be put on hold until the budget is finalized, companies can still leverage their existing contracts to sustain operations and mitigate the immediate impact of the budget delay.

Furthermore, aerospace & defense firms often have diverse revenue streams beyond government contracts, including commercial sales, international partnerships, and aftermarket services. This diversification helps cushion the impact of delayed government budgets to some extent, allowing companies to continue generating revenue and maintaining operations even during periods of uncertainty. Nonetheless, the sooner the government's budget is provided, the greater the stability and confidence it will bring to the aerospace & defense industry, enabling companies to plan effectively and invest in future growth.

## Global Conflicts and The Aerospace & Defense Industry

Global conflicts have a profound impact on the aerospace & defense industry, shaping its dynamics in multiple ways. During times of heightened geopolitical tensions or outright conflict, governments often increase defense spending to enhance national security and military capabilities. This surge in defense expenditures creates opportunities for aerospace & defense companies to secure lucrative contracts for the production of military equipment, weaponry, and technology. As a result, these firms experience a boost in demand for their products and services, leading to increased revenue and profitability.

However, while global conflicts can provide short-term benefits for the aerospace & defense industry, they also present challenges and uncertainties. Rapid changes in geopolitical landscapes and shifting alliances can affect the distribution of defense contracts and alter market dynamics. Additionally, prolonged conflicts or escalations can lead to disruptions in the global supply chain, impacting the timely delivery of components and materials essential for defense manufacturing. Moreover, heightened geopolitical tensions may also result in stricter regulations, export controls, and trade barriers, complicating international collaborations and partnerships within the industry.

The aerospace & defense industry must navigate ethical considerations and societal concerns related to supplying military equipment during times of conflict. Companies may face scrutiny and public backlash for their involvement in supplying arms to conflict zones, leading to reputational damage and potential legal challenges. Overall, while global conflicts can create opportunities for growth in the aerospace & defense industry, they also bring complexities and risks that companies must carefully navigate to maintain long-term success.

## Sales and Sales Forecasts

### *Raytheon*

Raytheon reported Q1 2023 sales of \$7.236 billion (1.9% change from Q1 2022) with operating profit of \$652 million. They reported Q2 2023 sales of \$7.655 billion (7.39% change from Q2 2022) with operating profit of \$706 million. They reported Q3 2023 sales of \$6.472 billion (3% change from Q3 2022) with operating profit of \$560 million. They reported Q4 2023 sales of \$6.886 billion (3% change from Q4 2022) with operating profit of \$604 million.

### *Pratt & Whitney*

Pratt & Whitney reported Q1 2023 sales of \$5.23 billion (15% change from Q1 2022) with operating profit of \$415 million. They reported Q2 2023 sales of \$5.701 billion (15% change from Q2 2022) with operating profit of \$230 million. They reported Q3 2023 sales of \$926 million (-83% change from Q3 2022) with operating profit of -\$2.482 billion. Sales and operating profit decreased drastically due to the powder metal issue. They reported Q4 2023 sales of \$6.439 billion (14% change from Q4 2022) with operating profit of \$382 million.

### *Collins Aerospace*

Collins Aerospace reported Q1 2023 sales of \$5.581 billion (16% change from Q1 2022) with operating profit of \$794 million. They reported Q2 2023 sales of \$5.85 billion (17% change from Q2 2022) with operating profit of \$821 million. They reported Q3 2023 sales of \$6.629 billion (16% change from Q3 2022) with operating profit of \$903 million. They reported Q4 2023 sales of \$7.12 billion (14% change from Q4 2022) with operating profit of \$1.126 billion.

### *Sales Forecast 2024*

The outlook for sales in 2024 is positive, estimating a full year of sales totaling \$78 to \$79 billion. This represents an increase of \$10 billion in net sales in 2024 which is a 14.7% increase from 2023. Increased demand of GTF engines in Pratt & Whitney is a driver of the estimated increase in sales in 2024.

## Financial Analysis

Analyzing the financial performance of companies within the aerospace & defense industry requires a deep dive into numerous important statistics regarding efficiency, and overall valuation. The important statistics include P/E, P/B, P/S, P/FCF, ROA, ROI, and ROE. These statistics will paint a clear picture of how well the company has performed. This financial analysis will also look in detail at RTX's income statement, balance sheet, and statement of cash flows as well as data sets derived from those key financial reports.



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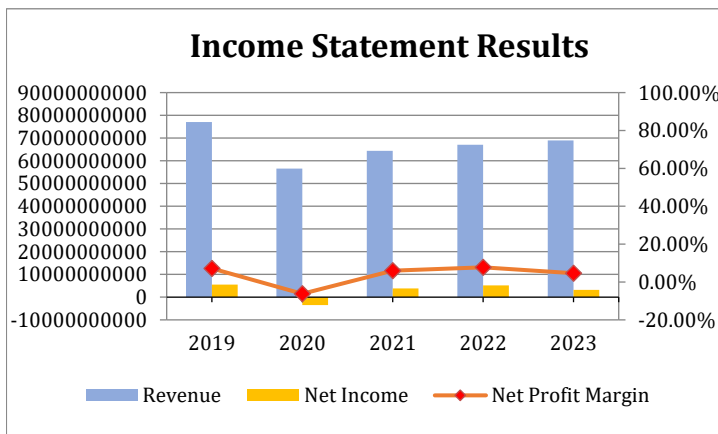
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| Current Financial Ratios |       |
|--------------------------|-------|
| P/E                      | 45.18 |
| P/B                      | 2.24  |
| P/S                      | 2.10  |
| P/CF                     | 22.70 |
| ROA                      | 1.99% |
| ROI                      | 4.32% |
| ROE                      | 4.83% |

Data Source: Morningstar.com

### Income Statement Analysis

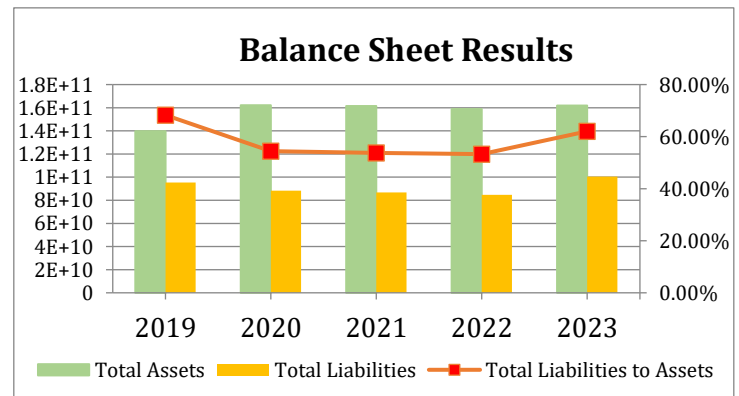


Data Source: Morningstar.com

Total revenue was relatively high in 2019 at \$77.04 billion pre-pandemic. During the pandemic, in 2020, RTX's revenue took a hit, decreasing to \$56.58 billion. Since then, the total revenue has yet to reach pre-pandemic levels, but has been increasing post-pandemic. In 2021, revenue totaled \$64.38 billion, in 2022 revenue totaled \$67.07 billion, and in 2023 revenue totaled \$68.92 billion. Similarly, net income was at its greatest over the five year period in 2019 at \$5.53 billion. The pandemic in 2020 led to a net loss of -\$3.51 billion. Net income proceeds to increase over the next couple years in 2021 and 2022 with net incomes of \$3.86 billion and \$5.19 billion respectively. In 2023, net income was \$3.19 billion decreasing from 2022. Net income from 2023 decreased by \$2.9 billion because the Pratt & Whitney powder metal issue. Assuming a perfect year in 2023, that puts net income at around \$6.09 billion which would have beat 2019's net income. Net profit margin follows a similar trend to both revenue and net income. Net profit margin in 2019 was 7.19% and was later beat in

2022 with a net profit margin of 7.75%, recovering from the pandemic. The negative net profit margin in 2020 of -6.22% can be attributed to overall performance during the pandemic. Net profit margin in 2023 was 4.64% once again due to the issue within Pratt & Whitney.

### Balance Sheet Analysis

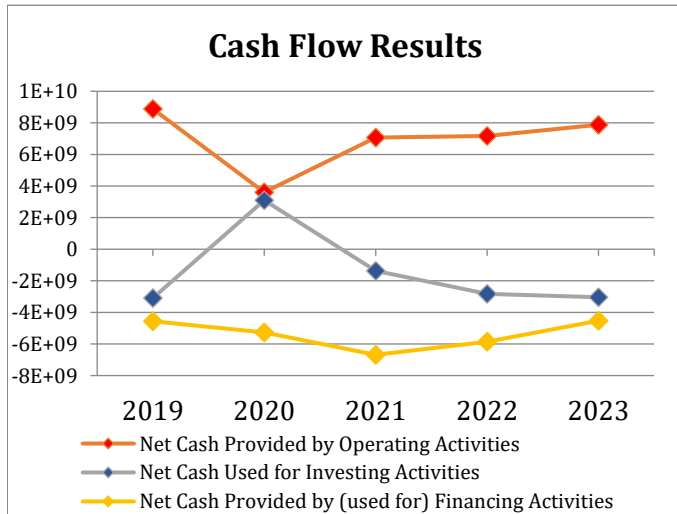


Data Source: Morningstar.com

The balance sheet displays a relatively stable trend in total assets over the past five years. Total assets in years 2019 to 2023 are as follows: \$139.7 billion, \$162.1 billion, \$161.4 billion, \$158.8 billion, and \$161.8 billion. Total assets from 2019 to 2020 likely increased due to RTX's (formerly known as Raytheon) and United Technologies' merger in 2020 to form Raytheon Technologies. Growth in total assets post-merger has remained relatively flat. Total liabilities have remained somewhat stable as well with slight decreases in 2021 and 2022 post-merger and increasing more sharply in 2023. Total liabilities in years 2019 to 2023 are as follows: \$95.3 billion, \$88.2 billion, \$86.7 billion, \$84.6 billion, and \$100.4 billion. Total liabilities increased sharply in 2023 due to the Pratt & Whitney powder metal issue. Total liabilities to assets follows a similar trend to total liabilities in that post-merger in 2020 the ratio remained relatively flat until 2023 when the powder issue occurred. Total liabilities to assets ratios from 2019 to 2023 are as follows: 68.27%, 54.44%, 53.72%, 53.28%, and 62.04%. RTX's liability levels may seem relatively high, however looking at their debt-to-EBITDA ratio it can be seen that they a bit over exposed into liability. Their average debt-to-EBITDA ratio over the past 5 years is 4.92, however excluding the pandemic their average over the 4 years (2019, 2021, 2022, and 2023) is 3.13, which is much closer to the generally acceptable ratio of 3.

Outside of the pandemic, RTX has been maintaining a fairly healthy company. The next few years should have total assets increasing, and total liabilities decreasing with upcoming projects and product sales.

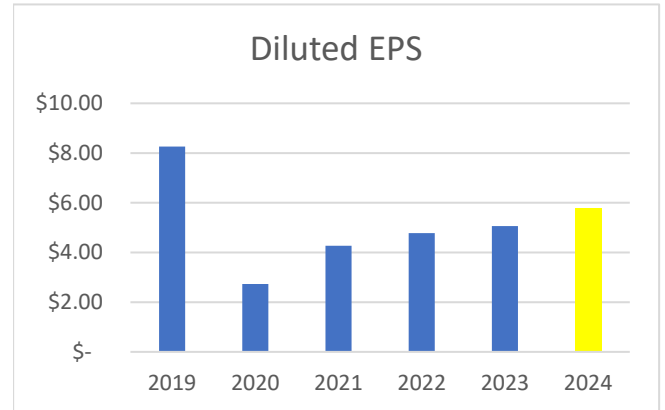
### Statement of Cash Flows Analysis



Data Source: Morningstar.com

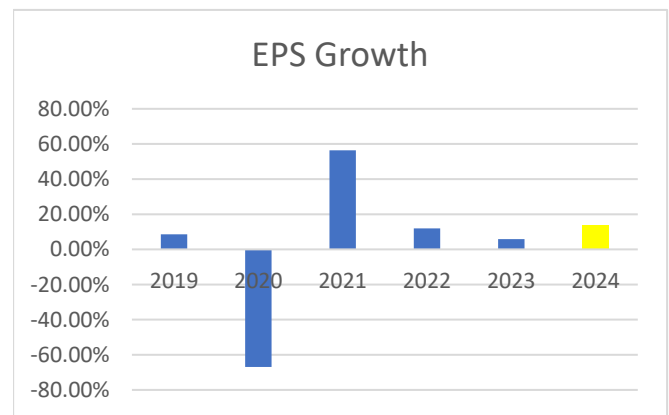
Net cash provided by operating activities has been slightly increasing post-pandemic headed back toward pre-pandemic levels in 2019. In 2019 net cash provided by operating activities was \$8.883 billion. In 2020, that figure dropped to \$3.606 billion. In the years following the pandemic 2021 to 2023 net cash provided by operating activities were as follows: \$7.071 billion, \$7.168 billion, and \$7.883 billion. Net cash used for investing activities was the greatest in 2019, which corresponds with net cash provided by operating activities. Net cash used for investing activities in 2019 was \$3.092 billion. There was no investing activities in 2020 due to the pandemic. Cash that would have been used for investing was kept in order to fulfill debt obligations in a low sales and services year. Investing activities have picked back up post-pandemic. It can be seen that net cash used for investing activities over the years 2021 to 2023 is increasing. Regarding net cash used for financing activities, there was an increase over the years 2019 to 2021, and it has been decreasing in years thereafter. Net cash used for financing activities peaked in 2021 at \$6.685 billion and was at a minimum in 2023 at \$4.527 billion.

### EPS Analysis



Data Source: Value Line Investment Survey

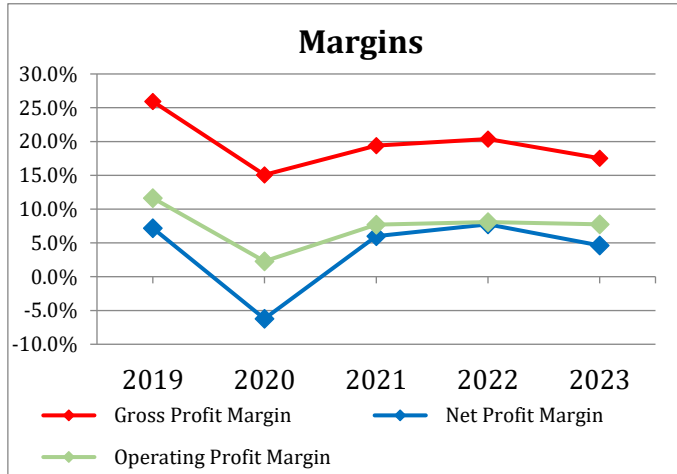
The chart above displays diluted earnings per share (EPS) over the past five years including an EPS estimate based on RTX's projected earnings growth rate of 14% (yellow). EPS has been increasing post-pandemic headed back toward pre-pandemic 2019 levels. RTX was in the recovery phase the past few years and is now likely beginning to enter growth stages after putting the pandemic in the rear-view.



Data Source: Value Line Investment Survey

Similarly with the EPS growth rate, it experienced a drastic decrease during the pandemic of 2020. In 2021 RTX bounced back and EPS grew by 56.41%. Since then, EPS growth rate has been decreasing. As mentioned before, in 2023 the metal powder issue occurred and EPS and EPS growth suffered as a consequence. The 2024 EPS growth estimate 14% (yellow) is pushing RTX in the right direction for future success.

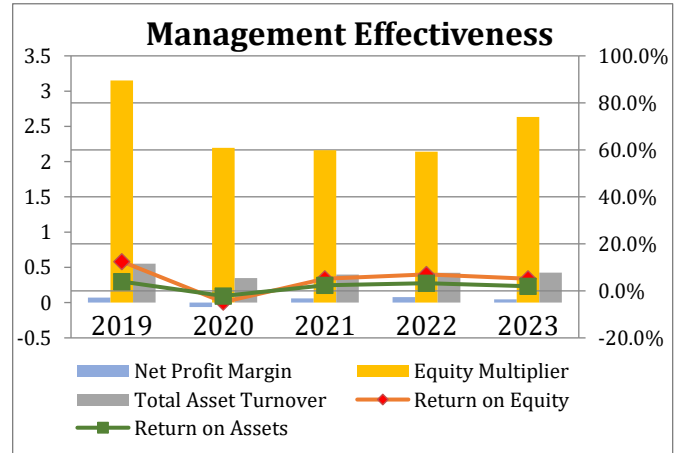
### Profit Margin Analysis



Data Source: Morningstar.com

The chart provided illustrates RTX's financial performance over the past half-decade. Following a pattern akin to many other analyses, the company witnessed a peak in profitability in 2019, only to face a significant downturn amidst the global pandemic in 2020. Specifically, RTX's gross profit margin stood at a robust 25.9% in 2019 but saw a notable decline to 15.1% in 2020. However, signaling a recovery post-pandemic, the gross profit margin rebounded to 20.4%, marking the second-highest point in the five year period. The subsequent dip to 17.5% in 2023 can once more be attributed to challenges, notably the powder metal issue. Examining operating profit margins, RTX experienced a drop from 11.6% in 2019 to 2.3% in 2020. However, from 2021 to 2023, there has been a degree of stability, with operating profit margins hovering around 7.7%. As for net profit margins, 2019 recorded a figure of 7.2%, contrasting starkly with the negative figure of -6.2% in 2020 during the height of the pandemic. Subsequent to this downturn, the post-pandemic era has seen a general uptick in net profit margins, with the exception of 2023, which was impacted by external factors such as Pratt & Whitney's powder metal issue.

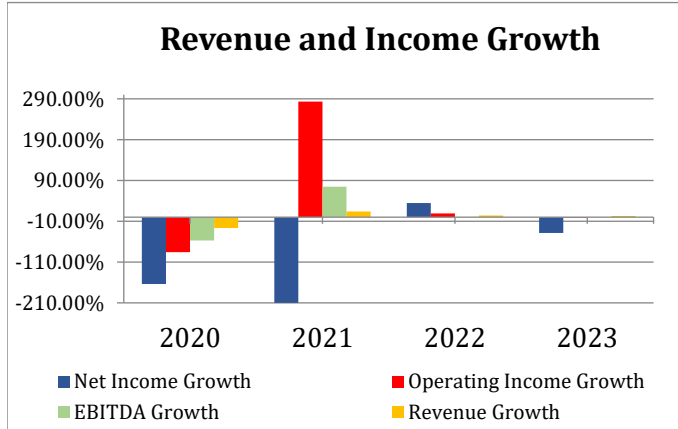
### Management Effectiveness



Data Source: Morningstar.com

The chart provided offers insights into the overall effectiveness of RTX's management team. A notable trend is the decreasing equity multiplier since 2019, indicating a shift towards a more conservative financing structure. However, in 2023, there was a reversal in this trend, with the equity multiplier rising to 2.63, suggesting an increase in assets financed by equity during that year. Specifically, in 2019, the equity multiplier stood at 3.15, followed by relatively stable figures in the subsequent three years: 2.19 in 2020, 2.16 in 2021, and 2.14 in 2022. Turning attention to total asset turnover, there was a peak in 2019 followed by a decline into 2020, likely influenced by the pandemic. However, post-pandemic, there has been a steady increase in total asset turnover, contributing to the improvement in return on assets. Meanwhile, net profit margins have shown some fluctuation post-pandemic, ranging from 4.6% to 6.0%. Return on assets experienced a high of 4.0% in 2019 but dropped sharply to -2.2% in 2020 amidst the pandemic. Since then, there has been a gradual increase in return on assets, indicating a recovery post-pandemic. Similarly, return on equity mirrored this trend, with a peak of 12.5% in 2019 and a plunge to -4.8% in 2020. Despite efforts post-pandemic, return on equity has struggled to return to pre-pandemic levels, fluctuating between 5.2% and 7.0%. These metrics collectively paint a picture of challenges faced by RTX's management team and financial performance over the past five years.

### Growth Rate Analysis

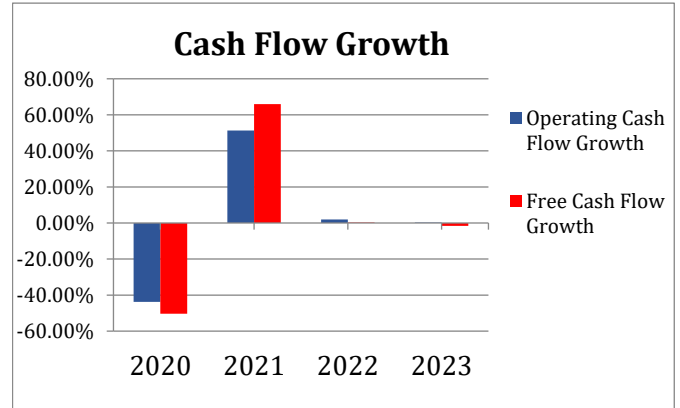


Data Source: Morningstar.com

The provided chart offers a detailed portrayal of RTX’s revenue and income growth trends over the past four years, shedding light on the company’s financial performance amidst various challenges. In 2020, net income growth took a significant hit, plummeting to -163.55% and further declining to -209.80%, primarily attributed to the adverse impacts of the pandemic. However, signs of recovery emerged in 2022, with net income growth turning positive at 34.50%. Unfortunately, this upward trajectory was short-lived, as net income growth once again dipped into negative territory in 2023, registering at -38.52%. The decrease in net income growth in 2023 can be predominantly attributed to the powder metal issue, which emerged as a focal point in the year’s performance analysis. Meanwhile, operating income growth experienced a sharp decline of -85.57% in 2020 due to pandemic-induced challenges. However, the post-pandemic landscape in 2021 witnessed a resurgence in revenue, leading to a remarkable increase in operating income and subsequent growth of 283.15%. Since then, operating income growth has fluctuated, with growth rates of 9.20% in 2022 and -1.35% in 2023. EBITDA growth followed a similar trajectory, starting with a negative figure of -57.25% in 2020 but rebounding significantly to 74.59% in 2021. However, since 2021, EBITDA growth has plateaued, remaining relatively flat at 0.07% in 2022 and 0.32% in 2023. Examining revenue growth, the impact of the pandemic is evident, with a negative growth rate of -26.55% in 2020 as sales declined amidst the nationwide disruption. However, signs of recovery emerged in 2021, with revenue growth bouncing back to 13.79% as the company navigated

through the post-pandemic landscape. Subsequently, revenue growth slowed down in 2022 and 2023, registering at 4.17% and 2.75% respectively, reflecting a stabilization period following the tumultuous events of the previous years.

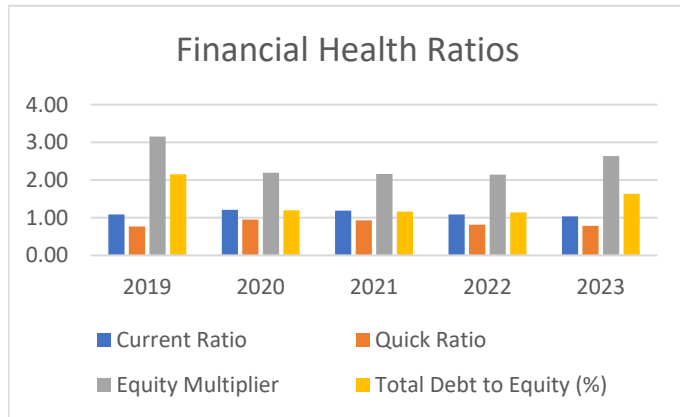
### Cash Flow Analysis



Data Source: Morningstar.com

The chart provided offers insights into RTX’s operating and free cash flow growth over the past four years, providing a nuanced understanding of the company’s financial performance during this period of time. Beginning with operating cash flow growth, 2020 saw a notable decline, with growth rate registering at -43.76%, indicative of the challenges faced during the height of the pandemic. However, a positive turnaround occurred in 2021, post-pandemic, with operating cash flow growth surging to 51.31%, reflecting a strong recovery. Subsequently, in 2022 and 2023, operating cash flow growth stabilized quickly, with values of 1.93% and 0.27% respectively. The marginal growth in operating cash flow in 2023 may have been impacted by the metal powder issue, which emerged as a significant factor affecting the company’s financial performance. Shifting focus to free cash flow growth, 2020 witnessed a similar trend of decline, with a growth rate of -50.34%, mirroring the challenges faced in operating cash flow. However, in 2021, there was an extreme positive reversal, bringing free cash flow growth to 65.96%, highlighting the company’s resilience in overcoming pandemic-induced hurdles. Nevertheless, free cash flow growth slowed significantly in 2022, recording a mere 0.22%, and turned negative at -1.56% in 2023, indicating a challenging financial landscape.

### Financial Health Analysis



Data Source: Morningstar.com

The financial health ratios depicted in the chart offer valuable insights into RTX's fiscal standing over the years, providing a comprehensive picture of the company's liquidity, leverage, and overall financial robustness. Starting with the current ratio, which measures the company's ability to meet short-term obligations with its current assets, it's evident that RTX experienced its highest ratio in 2020, standing at 1.21. This indicates that RTX had \$1.21 in current assets for every dollar in current liabilities, reflecting a healthy liquidity position. However, the current ratio began to decline in subsequent years, reaching 1.04 in 2023, likely influenced by the powder metal issue, which impacted the company's ability to maintain a robust liquidity position. Similarly, the quick ratio, which excludes inventory from current assets to provide a more conservative measure of liquidity, followed a parallel trajectory to the current ratio. With its highest value of 0.95 in 2020, the quick ratio gradually decreased to 0.78 in 2023, indicating a diminishing ability to cover current liabilities with liquid assets excluding inventory. Examining the equity multiplier, which indicates the proportion of assets financed by equity compared to debt, it peaked in 2019 before declining in 2020 and remaining relatively flat until 2023, when it spiked up again. This pattern is mirrored in the total debt to equity ratio, which also saw a slight decrease from 2020 to 2022 before aligning with the equity multiplier's upward trend in 2023. Overall, RTX demonstrates a level of financial health that can be seen as fair. There are certain areas of concern, such as the declining liquidity ratios and the risk associated with covering current liabilities excluding inventory.

However, considering the meticulous care taken with RTX's inventory management, the risk of losing inventory is minimal, which mitigates some of the concerns regarding liquidity.

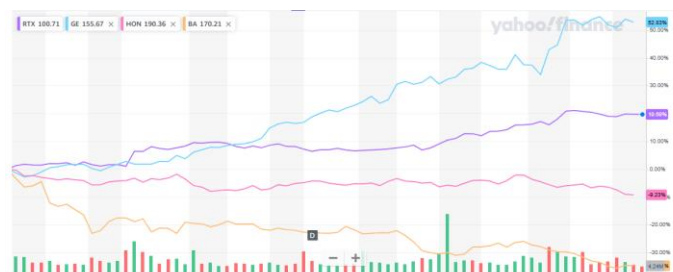
### Cross-Sectional Analysis

The following analysis will compare RTX to its closest competitors in the aerospace & defense industry. This will highlight performances both over a five year period and YTD.



Data Source: Yahoo Finance

The chart above displays that RTX (purple) has a five year return of 16.81%. While its competitors five year returns are as follows: General Electric (GE) (blue) 234.04%, Honeywell International (HON) (pink) 13.03%, and Boeing (BA) (yellow) - 55.22%. RTX outperforms HON and BA and significantly underperforms GE over a five year period.

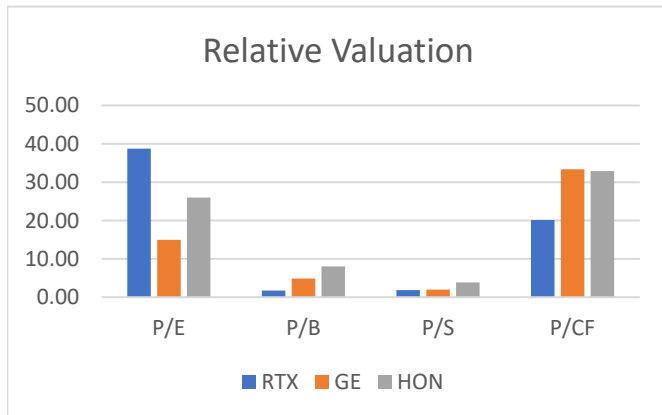


Data Source: Yahoo Finance

The chart above displays that RTX (purple) has a YTD return of 19.69%. While its competitors YTD returns are as follows: General Electric (GE) (blue) 52.83%, Honeywell International (HON) (pink) -9.23%, and Boeing (BA) (yellow) -34.70%. RTX outperforms HON and BA and significantly underperforms GE YTD.

## Relative Valuation Analysis

The following analysis will compare RTX to its closest competitors in the aerospace & defense industry. This will highlight key ratios including P/E, P/B, P/S, and P/FCF.



Data Source: Morningstar.com

Analyzing RTX's financial metrics in comparison to its peers offers valuable insights into the company's valuation and growth potential. Beginning with the price-to-earnings (P/E) ratio, it's apparent that RTX's P/E ratio is relatively high compared to its industry counterparts. This elevated ratio may stem from the struggles RTX has faced in restoring its earnings to pre-pandemic levels. The lingering impact of the pandemic on earnings could contribute to investors being willing to pay a premium for RTX's stock, resulting in a higher P/E ratio. Moving on to the price-to-book (P/B) and price-to-sales (P/S) ratios, RTX exhibits the lowest ratios among its peers in these categories. This suggests that RTX still has ample room for growth, as reflected by the undervaluation of its assets and sales compared to its market value. The relatively low P/B and P/S ratios signal that investors may perceive RTX as undervalued relative to its peers, indicating potential upside potential for the stock. Contrasting with the P/E ratio, the price-to-cash flow (P/CF) ratio for RTX is lower. This could be attributed to RTX's strategy of reinvesting more into its business, thereby reducing the ratio relative to peers who may allocate a larger portion of their cash flow to dividends or share buybacks. The lower P/CF ratio suggests that RTX's cash flow is being utilized effectively to drive growth and innovation within the company, which could bode well for its long-term prospects.

In summary, while RTX faces challenges in restoring its earnings post-pandemic, its lower P/B and P/S ratios signal potential for growth. Additionally, the lower P/CF ratio reflects a prudent reinvestment strategy, indicating that RTX is strategically positioned for long-term success and value creation.

## Two-Stage Free Cash Flow to Equity Discount Model

The valuation of RTX was done through a two-stage free cash flow to equity discount model. The inputs for the model were gathered from numerous sources including Value Line Investment Survey, Zacks.com, and Yahoo Finance. The EPS in 2023 was \$5.06, dividend/share was \$2.32, capital spending/share was \$1.82, depreciation/share was \$3.1736, working capital/share was \$1.2480, and change in working capital/share as -\$1.0244. The next variable estimated was K or the investor's required return. It was estimated by assuming a risk free rate of 4.19% (the long term average for the 3-M T-bill), a market risk premium of 5.00% and RTX's beta of 1.05 according to Value Line. The K input came out to be 9.44% which didn't account for RTX being a large cap stock. So, K was adjusted to be 10%, equal to the average annual return of large cap stocks. The last variable estimated was growth rate or g. The estimation of g was based on analyst estimates from Value Line (g = 9.00%), Yahoo Finance (g = 11.29%), and Zacks.com (g = 10.20%). Taking these estimates into account g was assumed to be 9.00% the most conservative growth estimate. Growth rate in the stable period was assumed to be 5.00% which is similar to mature peers in the industry. It is also important to note that a target debt ratio of 41% was also used in the estimate, derived from Value Line. After running an excel model it was estimated that RTX's fair value was \$161.11. Applying a 20% margin of safety to the fair value estimate the lower bound was \$128.89 and the upper bound was \$193.33. The market price of RTX (P<sub>0</sub>) as of April 18, 2024, is equal to \$100.71. According to the fair value estimate, RTX is significantly undervalued and thus the Investment Management Program should consider buying RTX.

BUY

RTX CORP (RTX)

04.22.2024

## RECOMMENDATION

I recommend a buy on RTX Corp. Though the stock has struggled over the past few years mostly pertaining to the aftereffects of the pandemic, RTX is poised to become a big winner in the next few years. RTX is well diversified, with good financials considering both the pandemic and the Pratt & Whitney metal powder issue having a large impact on RTX in Q3 of 2023. Investors have been flocking to buy RTX, and for good reasons. They have many projects ongoing and some are coming to light soon such as VIIRS, their component for the NASA-NOAA satellite that will be one of the most advanced indicators of weather events. With RTX's mix of commercial sales, government contracts, and projects including R&D, they are in a prime position to become one of the next big winners in the market.

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BUY

RTX CORP (RTX)

04.22.2024