

United Technologies – Raytheon Merger

Non-Target Securities

December 2020



Raytheon

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Amrit Kabo

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Amrit Kabo

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Louis Gaudette and Jonathan Dybka

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Thierry Matin

SECTION 1.

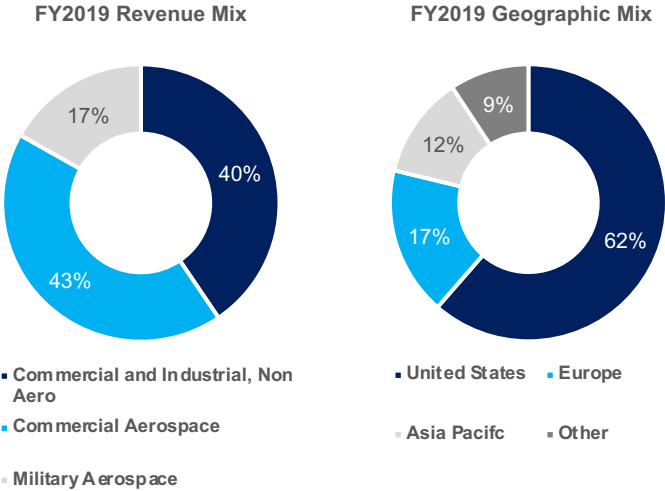
Company Overviews

United Technologies

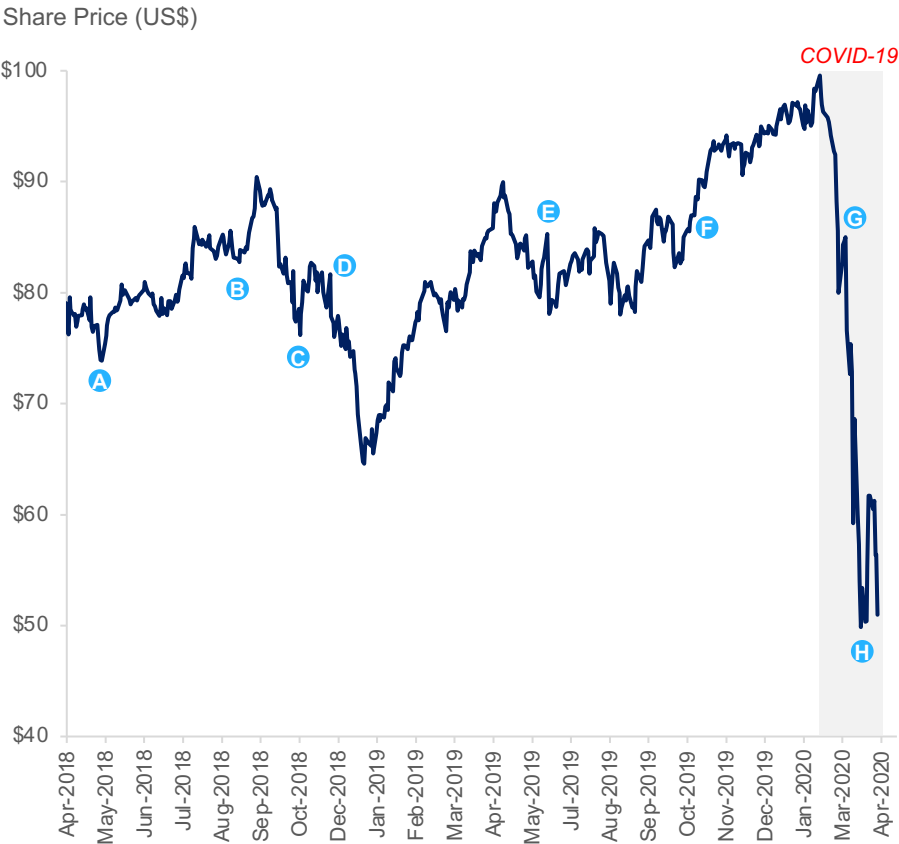
COMPANY OVERVIEW

- UTC was initially founded in 1934 as United Aircraft Corp., however through an emphasized M&A strategy, the company diversified into different industries and rebranded itself as UTC in 1975
- Operating Segments¹:
 - Otis: Provides elevator and escalator manufacturing, installation and service to commercial, residential and infra property sectors; spun off in Q2'2020
 - Pratt & Whitney: Manufacturer of aircraft engines, which are sold to commercial and military end markets
 - Carrier: Provides heating, ventilating, air conditioning, refrigeration, fire and security solutions for residential, commercial and industrial markets; spun off in Q2'2020
 - Collins Aerospace Systems: Manufacturer of advanced aerospace products and aftermarket service for general aviation markets
- End Markets:
 - Predominantly oriented towards commercial and industrial; key clients include Airbus and Boeing
 - Exposure to military end markets is mostly oriented to the U.S. government and the Department of Defence

FY 2019 BUSINESS MIX



L2Y SHARE PRICE PERFORMANCE²



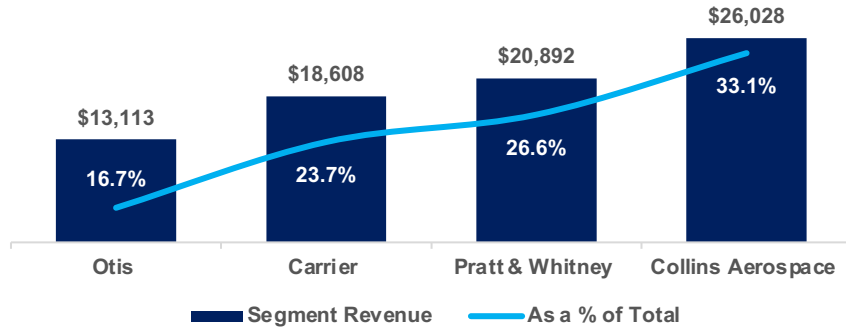
Notes: Information as of November 12, 2020. All amounts in US\$ millions, unless otherwise stated.

1. Prior to divestments related to the merger
2. Prior to merger completion date (April 3, 2020)
Source: Bloomberg, Company filings and Capital IQ

United Technologies

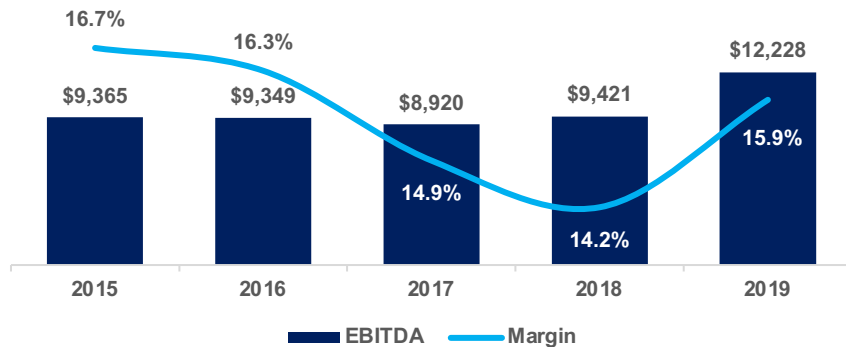
Company Financials

BUSINESS SEGMENTS



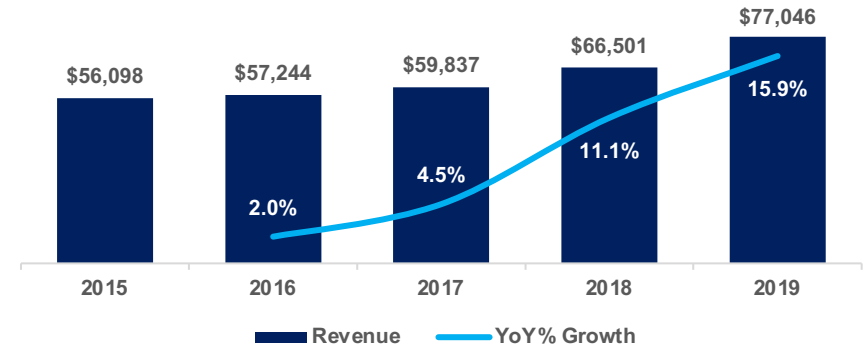
- Prior to the merger, majority of UTC's business was driven by the aerospace industry, with the bulk being oriented towards commercial

EBITDA



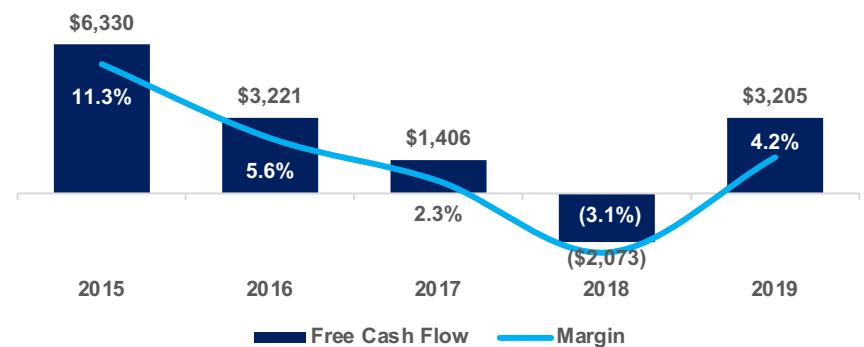
- UTC had been subject to margin pressure as a result of increasing costs related to acquisitions; however, margins largely recovered in 2019

REVENUE



- The Company had seen strong revenue growth over the past few years, which had been driven primarily by acquisitions of brands such as Collins

FREE CASH FLOW GENERATION



- Due to UTC's acquisition-intensive nature, free cash flow generation has been lumpy, particularly in 2018 when Rockwell Rollins was acquired

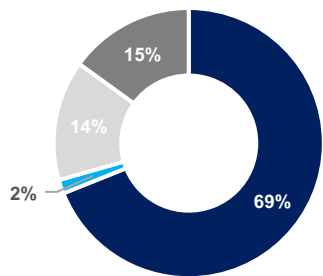
The Raytheon Company

COMPANY OVERVIEW

- Raytheon was founded in 1922 and together with its subsidiaries was a major defence contractor for the United States
- As of 2019, it was the fourth-largest defence contractor in terms of contracts won and majority of the business relies on said contracts
- Operating Segments¹:
 - Integrated Defence Systems (IDS): Provides integrated air and missile defence systems, notably the patriot-missile systems
 - Missile Systems (MS): Develops missile and combat systems for the U.S. Forces and allied nations
 - Intelligence, Information and Services (IIS): Specializes in items such as cybersecurity and data analysis, which are provided to operators such as the U.S. Intelligence Community
 - Systems, Space and Airborne Systems (SAS): Provides sensors and communication systems for operators such as the U.S. Air Force
 - Forcepoint: Develops cyber security and loss prevention products
- End Markets:
 - In 2019, 69% of total revenue was generated by military defence contracts from the U.S. government, with an additional 14% of total revenue being generated by foreign military sales through the government

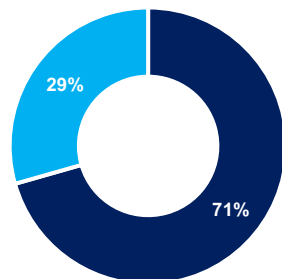
FY 2019 BUSINESS MIX

FY2019 Revenue Mix



- Sales to the U.S. Government
- U.S. Direct Commercial Sales
- Foreign Military Sales
- Foreign Commercial Sales

FY2019 Geographic Mix



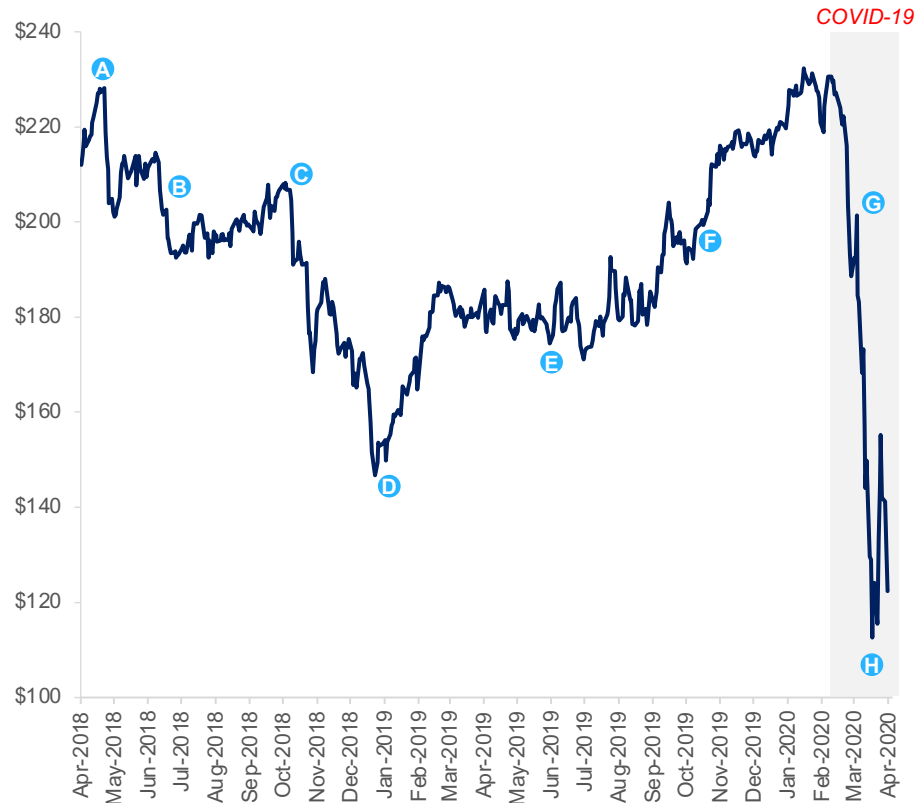
- United States
- International

Notes: Information as of November 12, 2020. All amounts in US\$ millions, unless otherwise stated.

1. Prior to divestments related to the merger
 2. Prior to merger completion date (April 3, 2020)
 Source: Bloomberg, Company filings and Capital IQ

L2Y SHARE PRICE PERFORMANCE²

Share Price (US\$)

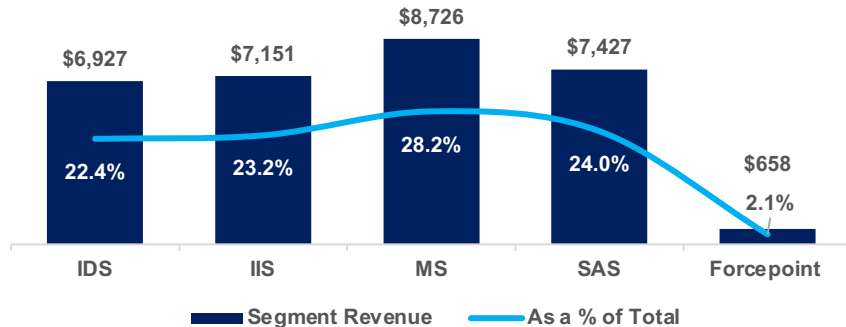


- | | |
|--|--|
| <p>A Apr. 24, 2018: Defence sector sells off as Lockheed fails to boost forecasts and geopolitics appeared to be stable</p> <p>B Jun. 12, 2018: Defence sector sells off as a potential deal between the U.S. and North Korea is on the horizon</p> <p>C Oct. 2018: A wave of M&A hits the defence sector as UTC acquires Rockwell and L3 Tech merges with Harris</p> <p>D Jan. 2, 2019: Raytheon wins £250M contract with U.K.'s Ministry of Defence but impacted by U.S. government shutdown</p> | <p>E Jun. 9, 2019: UTC announces an agreement to merge with the Raytheon Company</p> <p>F Oct. 10, 2019: Raytheon's CFO states that regulatory approvals look likely regarding the mega-merger with UTC</p> <p>G Mar. 3, 2020: Amidst the Pandemic, equities slightly recover as the Fed cuts rates</p> <p>H Mar. 23, 2020: Trough of COVID-19 Bear Market (S&P 500 YTD: -34%)</p> |
|--|--|

The Raytheon Company

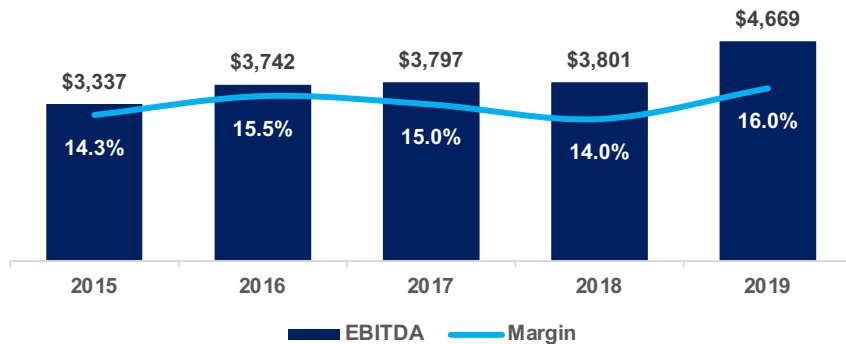
Company Financials

BUSINESS SEGMENTS (FY2019)



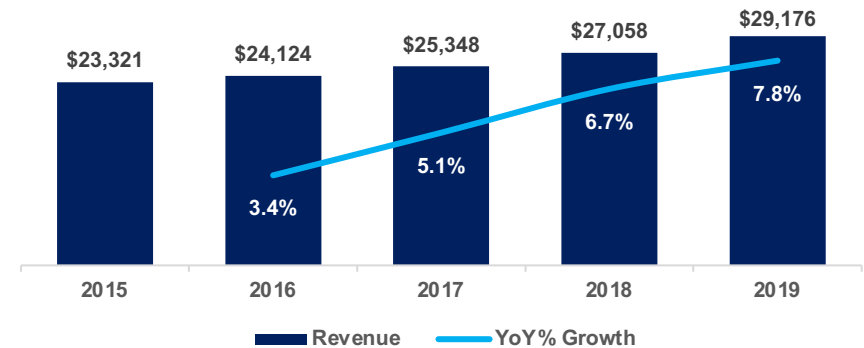
- Sales were spread across four major segments all concerning the defence industry; with Missile Systems being the primary segment

EBITDA



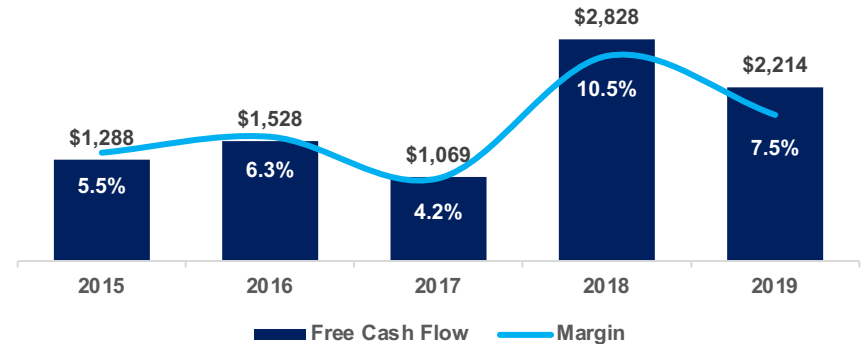
- The Company had been able to sustain consistent margins despite the downturn in the commercial aero industry

REVENUE (FY2019)



- Revenue had been driven by predominantly organic growth via defence contracts as well as some minor acquisitions such as of Forcepoint

FREE CASH FLOW GENERATION



- Free cash flow generation has also been consistent due to the strong organic business model Raytheon possessed

SECTION 2.

Industry Overview

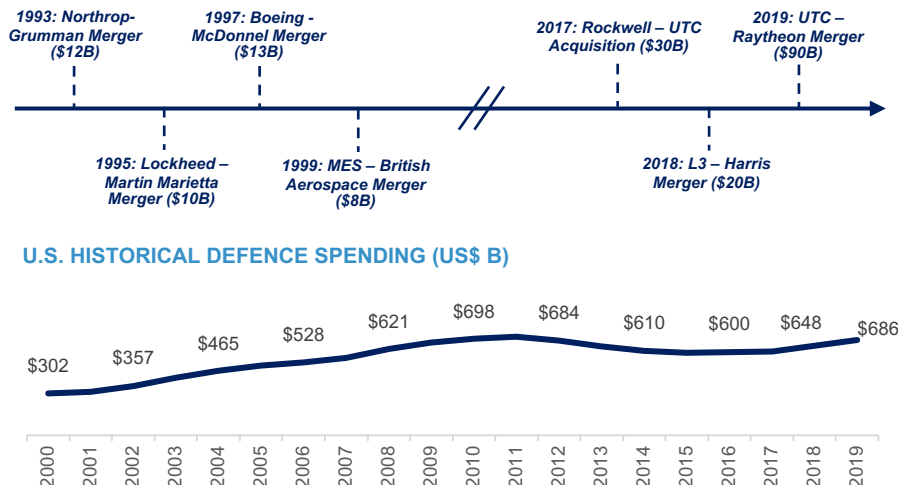
Industry Analysis

Aerospace and Defense

OVERVIEW

- The Aerospace and Defence industry drastically changed following the end of the Cold War
- The emphasis shifted away from large arsenals and towards innovative weapon systems, rapid deployment and extreme precision
- As a result, the industry has seen significant amounts of consolidation/M&A, which has led to large companies such as Lockheed, the Boeing Company and the newly formed Raytheon Technologies, winning a large portion of federal contracts issued by the U.S. Department of Defence
- As such, it is evident that scale and innovation are key drivers in the industry

HISTORICAL CONSOLIDATION AND U.S. DoD BUDGET



Notes: Information as of November 12, 2020.

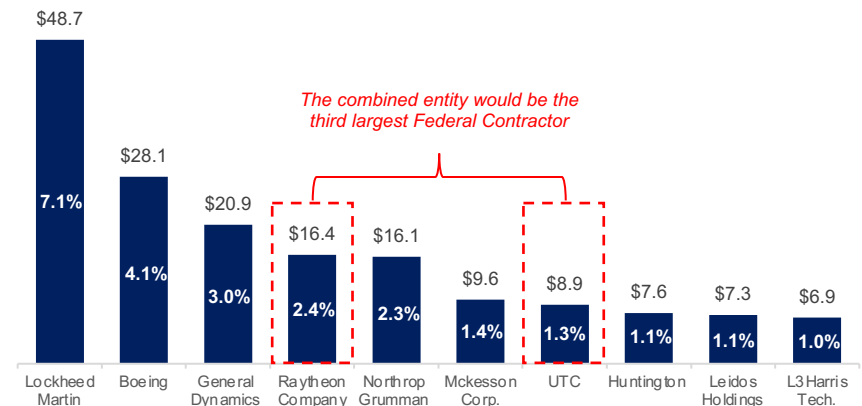
1. In US\$ billions; market share as a % of total DoD contract spend in 2019

Source: FPDS.gov, National Bureau of Economic Research and Congressional Research Service

THE SIGNIFICANCE OF CONTRACTS

- Majority of the industry is driven by military is driven by military spend, particular by the United States
- In FY2019, global military expenditure was estimated to be ~\$1.9T, with the U.S. Department of Defence accounting for \$686B of that total spend
- Defence spending continues to remain a priority for the U.S. but has somewhat stagnated in recent years further increasing competition and emphasizing the importance of winning contracts
- In terms of market share, majority of large contracts for innovative weapon systems are tied up across the top 5 companies
- **Outlook:** A larger deficit may pressure defence spending but the situation is not the same compared to years following the GFC

TOP 10 FEDERAL DEFENSE CONTRACTORS FY2019¹



SECTION 3.

Merger Overview

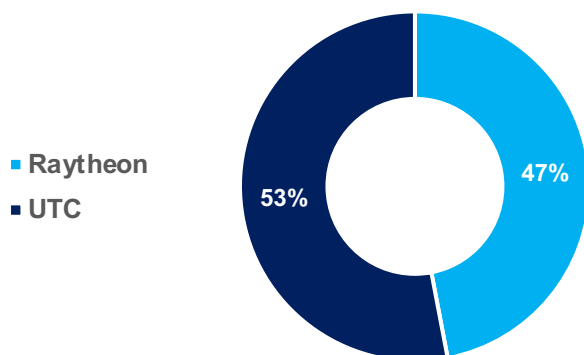
Merger Overview

Transaction Terms

TERMS

- The transaction was a mergers of equals, structured as an all-stock deal worth roughly \$90B based on an implied forward EV/EBITDA multiple of ~13.0x
 - No implied premium; termination fees of \$2.4B (UTC to RTN) and \$1.8B (RTN to UTC)
- Raytheon shareowners received 2.3348 shares in the combined company for each Raytheon share they held
- Net debt (Pro Forma) of \$26B, of which UTC contributed ~\$24B
 - Resulted in an "A-rated" credit profile for the merged entity
- Although both boards approved the transaction, there was shareholder backlash
 - Bill Ackman, CEO of hedge fund Pershing Square, and Daniel Loeb, CEO of hedge fund Third Point, both voiced their opposition against the deal

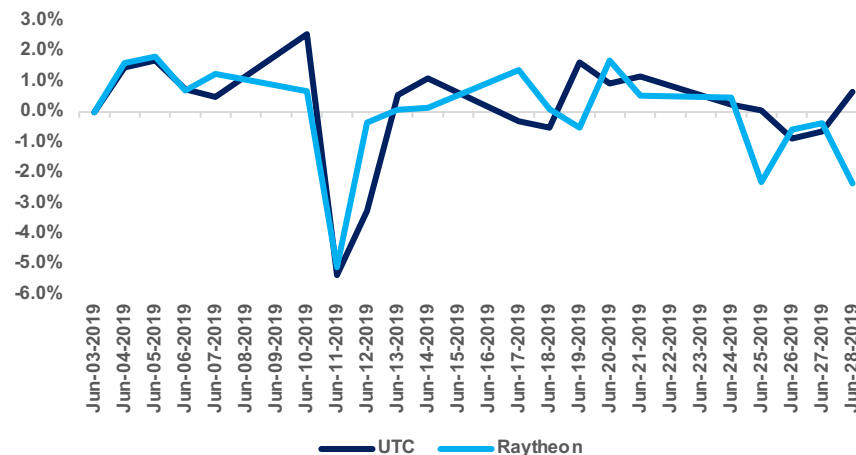
PRO-FORMA OWNERSHIP²



- Upon completion of the deal, UTC shareholders owned 53% of the merged entity, while the remaining 47% was owned by Raytheon shareholders

MARKET REACTION¹

Share Price Performance



BOARD OF DIRECTORS AND MANAGEMENT



Raytheon

Raytheon would be given seven of the board seats in the merged entity, with RTC CEO Thomas Kennedy becoming Chairman of RTX



United Technologies

UTC would be given eight of the board seats in the merged entity, with UTC CEO Greg Haynes becoming CEO of RTX

Notes: Information as of November 30, 2020.

1. June 3, 2019 set as Index:100

2. On a fully diluted share basis

Source: Bloomberg and Raytheon Technologies

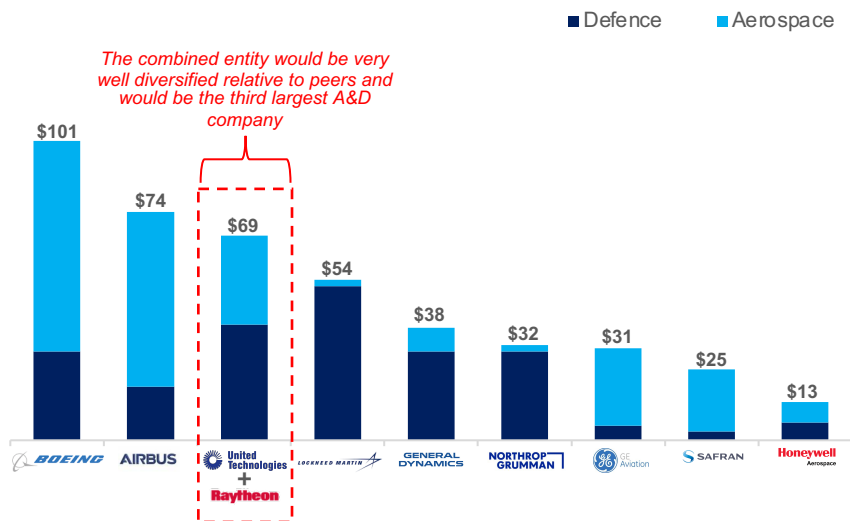
Merger Overview

Reasons for Merger

REASONS BEHIND THE MERGER

- Technology:
 - Significant potential overlap in technological competencies in both Defense and Commercial Aerospace areas
- Value Creation Through Synergies:
 - ~\$1B+ in gross annual cost synergies expected by "year 4"
- Increasing Competitive Advantage and Scale:
 - The transaction creates the 2nd largest U.S. A&D company by revenue and scale in the A&D market is key since it unlocks the potential to direct more investments on advanced capabilities
- Diversification:
 - Given how the defense and aerospace industries have very different cycles, the combined portfolio of Raytheon's steady cash flow profile complements United's more cyclical business

COMPETITIVE LANDSCAPE¹

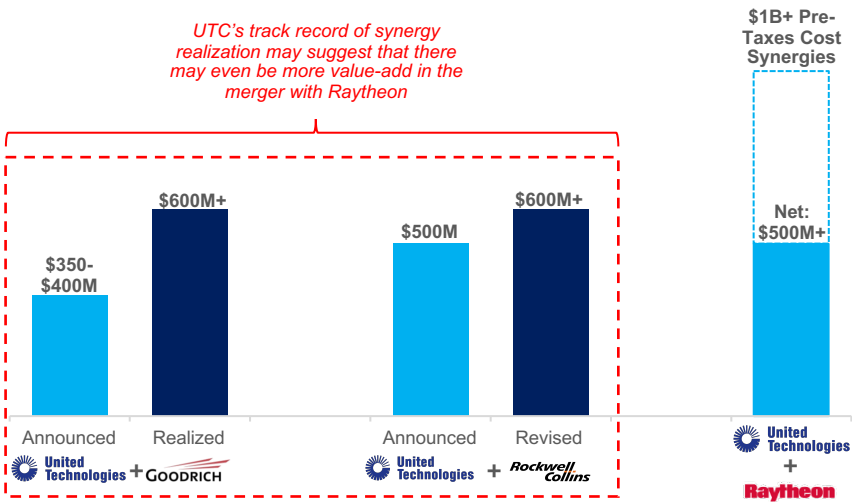


Notes: Information as of November 12, 2020.
1. A&D sales in US\$ billions
2. In US\$ billions; market share as a % of total DOD contract spend in 2019
Source: Bloomberg and Raytheon Technologies

VALUE CREATION THROUGH COST SYNERGIES

\$350M+	Driven by improvements in supply chain logistics, end market and procurement
\$325M+	Driven by corporate and segment consolidation
\$175M+	Driven by facilities consolidation and elimination of redundant processes
\$150M+	Driven by improvements in IT and other SG&A improvements

TRACK RECORD OF SYNERGY REALIZATION




Merger Overview

Regulatory Approval

REGULATORY PROCESS

- Due to the sheer sizes of the companies involved and their positions in the A&D industry, the merger was subject to much scrutiny
- Both UTC and Raytheon were companies that were the only manufacturers of certain products:
 - Raytheon and UTC were two of the very few suppliers of the core military GPS technology worldwide
 - As such, the merged entity would have faced very limited competition from alternative suppliers following the completion of the transaction
- Following the necessary divestitures, RTX announced that it had received all necessary regulatory approvals, March 30, 2020, from the likes of the DoJ and the EU

HISTORICAL M&A

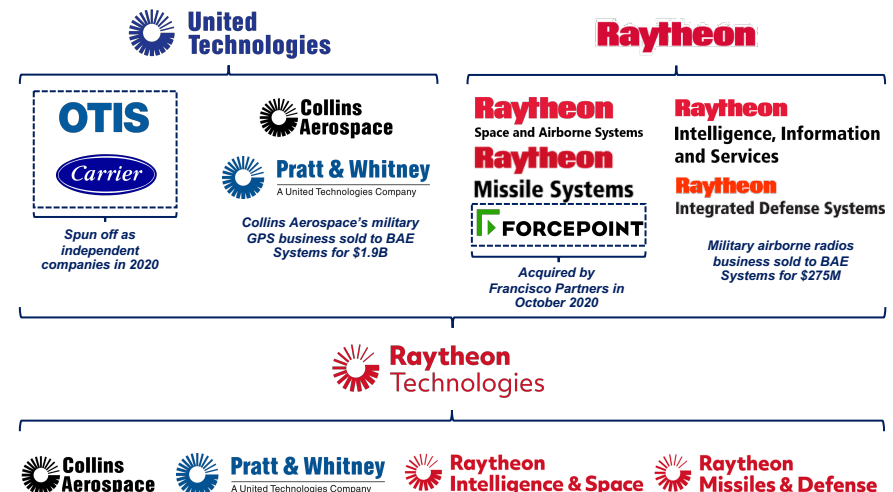
Target	Acquirer	Deal Specifics	Approval?
Rockwell Collins	 United Technologies	\$30B acquisition of Rockwell Collins by UTC in 2017; resulted in the Collins Aerospace segment	✓
HARRIS	 L3 Technologies	\$20B merger of equals in 2018 between L3 Technologies and Harris, resulting in L3 Harris	✓
NORTHROP GRUMMAN	 LOCKHEED MARTIN	Proposed merger in 1998, which was abandoned as a result of DoD and DoJ resistance	✗
MARTIN MARIETTA	 Lockheed	\$10B merger between Lockheed and Martin Marietta in 1993; resulted in Lockheed Martin	✓
GRUMMAN		\$12B merger between Northrop and Grumman in 1993; resulted in Northrop Grumman	✓

Notes: Information as of November 30, 2020.
Source: Bloomberg, DoJ, European Commission and Raytheon Technologies

REQUIRED DIVESTITURES

- Following UTC's acquisition of Rockwell Collins, UTC announced that it was splitting itself into three separate entities:
 - The Otis elevator segment and the Carrier segment were set to be spun off into independent companies;
 - These spin offs were completed in Q2'2020 following the merger with Raytheon
- For the merger to be completed, the DOJ required UTC and Raytheon to divest the following:
 - Raytheon's military airborne radios business and UTC's military GPS and large space-based optical systems businesses
 - The U.S. DoJ cited that without these divestitures, the merger would eliminate competition between two of the primary suppliers to the DoD

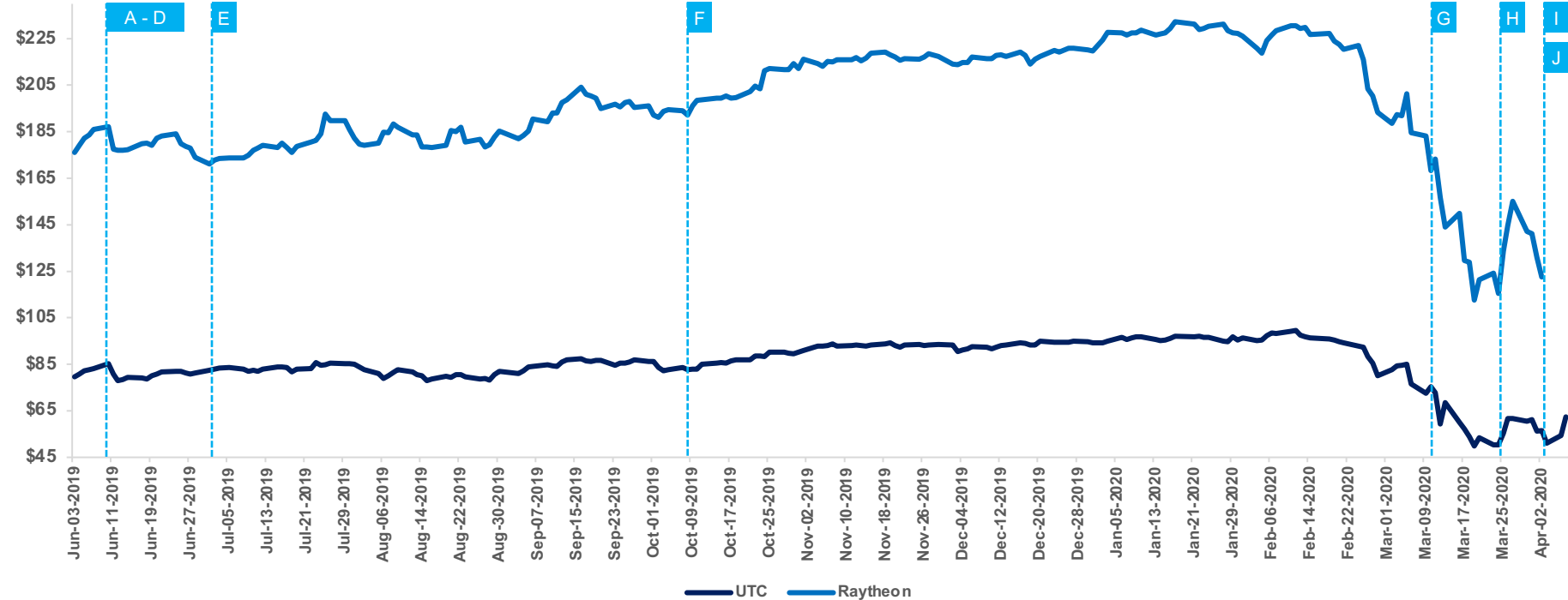
PRO-FORMA STRUCTURE



Merger Overview

Timeline

Share Price (US\$)



- A

June 8, 2019: Initial proposal is submitted by United Technologies
- B

June 9, 2019: UTC's Board of Directors approves the proposed deal
- C

June 9, 2019: Raytheon's Board of Directors approves the proposed deal
- D

June 9, 2019: The proposed deal is officially announced to the public
- E

June 28, 2019: Third Point's CEO, Daniel Loeb, voices his disapproval of the proposed deal citing that the merger reasons are largely invalid
- F

October 11, 2019: Both Raytheon and UTC's shareholders vote to approve the proposed deal; UTC's CEO states that the deal will likely be approved by regulators
- G

March 13, 2020: The European Commission approves the deal pending the divestitures of certain GPS and military radio segments
- H

March 26, 2020: The Anti-Trust Commission approves the deal pending the necessary divestitures
- I

April 3, 2020: Deal is completed, and Raytheon's stock is unlisted while UTC's stock is relisted as Raytheon Technologies (RTX);
- J

April 3, 2020: Following the completion of the deal, UTC segments Otis and Carrier Group are spun off as independent companies

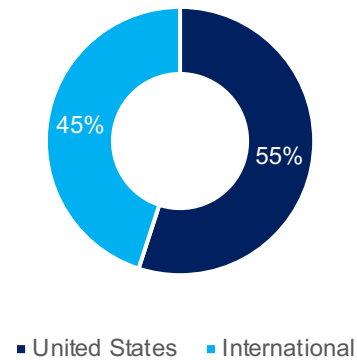
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2. In US\$ billions; market Share as a % of total DOD contract spend in 2019
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Merger Overview

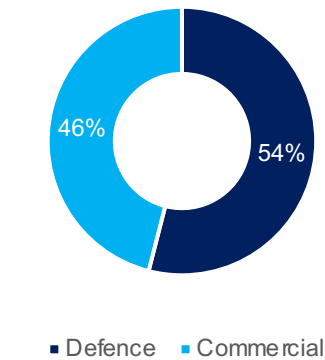
Pro-Forma Entity

END MARKET EXPOSURE

Pro-Forma Sales by Geography



Pro-Forma Sales by End Market



PRODUCT OFFERINGS



Commercial Aerospace

- Avionics
- Commercial Propulsion systems
- Power generation



- Cyber protection
- Air traffic management
- Autonomy, AI & Machine Learning

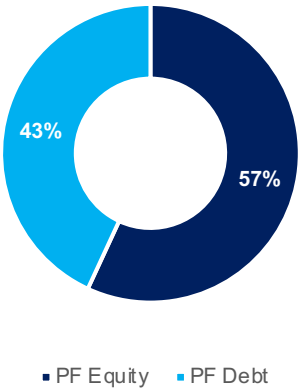
Defence

- Electro-Optical Intelligence, Surveillance & Reconnaissance
- Military Propulsion Systems
- Resilient Position, Navigation & Communications
- Radar, Sensor & Electronic Warfare
- Missiles and Air & Missile Defence
- System-of-Systems Integration

PRO-FORMA FINANCIAL PROFILE

	United Technologies	Raytheon	Raytheon Technologies
Sales	~\$44.7B	~\$28.9B	~\$73.6B
Operating Profit	~\$5.8B	~\$3.5B	~\$9.3B
Operating Margin	~12.9%	~12.2%	~12.6%
EBITDA	~\$8.0B	~\$5.4B	~\$13.5B
FCF	~\$3.2B	~\$2.8B	~\$6.0B
Net Debt	~\$24.0B	~\$2.0B	~\$26.0B

PRO-FORMA CAPITAL STRUCTURE



Notes: Information as of November 30, 2020.
Source: Bloomberg and Raytheon Technologies

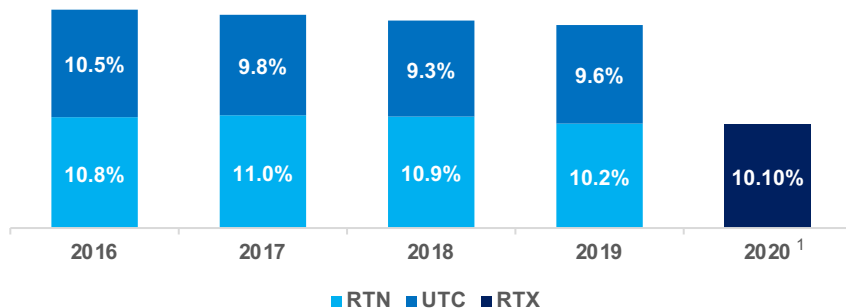
Merger Overview

Post-Merger Integration

COVID-19 PANDEMIC IMPACT

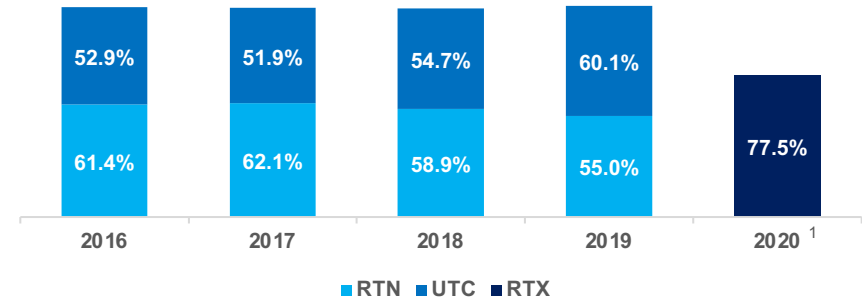
- RTX had planned to cut 1,000 corporate jobs as a result of the merger, however the pandemic exacerbated the layoffs, as the decrease in commercial aerospace sales resulted in 20,000 employees being laid off
 - Management stated it does not expect commercial air traffic to return to 2019 levels until at least 2023
- In addition, RTX also reduced its infrastructure, which takes up 31 million sq. ft., by 20% - beyond the 10 percent goal for the merger
- Management had set goals such as reducing costs by about \$2B in Q1 making the reduction in headcount a necessary action
- The pandemic has slowed the post-merger integration as many customers have cancelled orders; as such RTX's defence business will be the main source of cash flows in the near future

SG&A MARGIN



- Despite the push to cut SG&A costs, from a margin perspective, the merged entity has not been effectively cut costs through the first 6 months post-merger; however, the bulk of cost synergies are not expected until Year 3-4

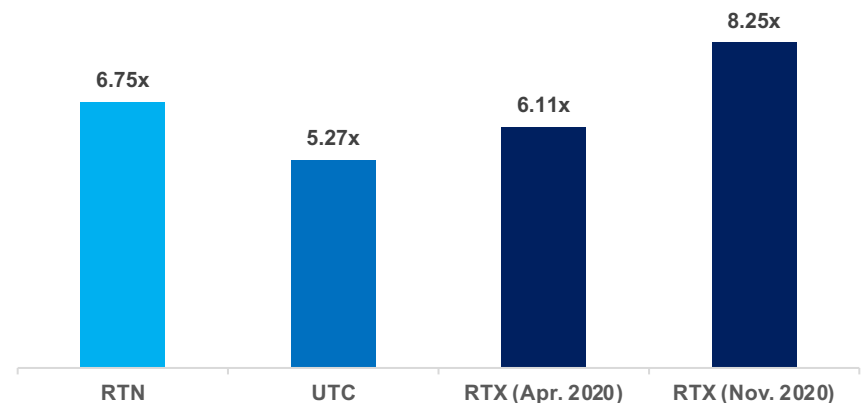
COST OF GOODS SOLD MARGIN



- The COGS margin has increased predominantly due to the pandemic and UTC divesting its Carrier and Otis segments, which were more cost-efficient

VALUATION

EV/EBITDA



Notes: Information as of November 30, 2020.

1. LTM

Source: Bloomberg, Company Filings

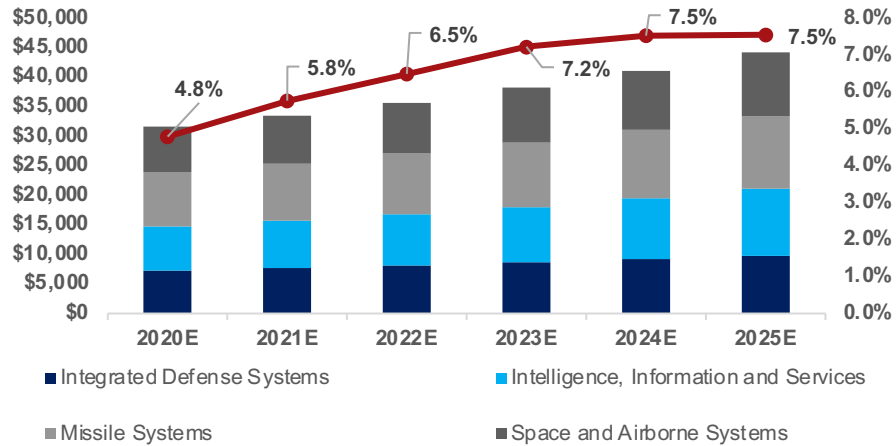
SECTION 5.

Valuation

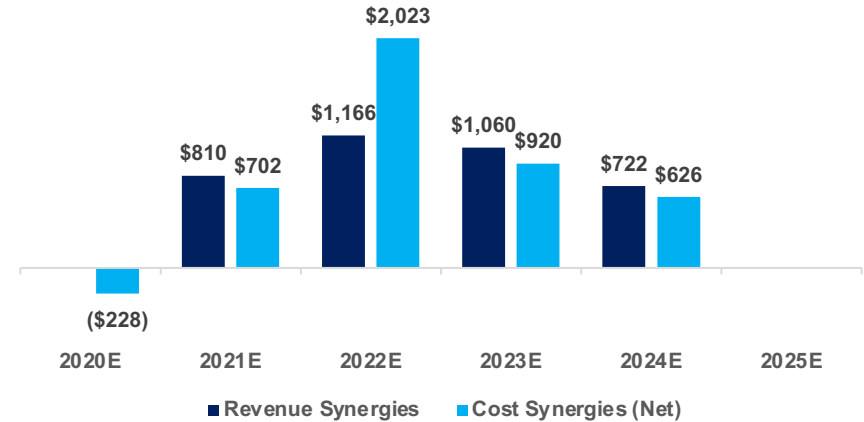
Valuation

Target Valuation - Raytheon

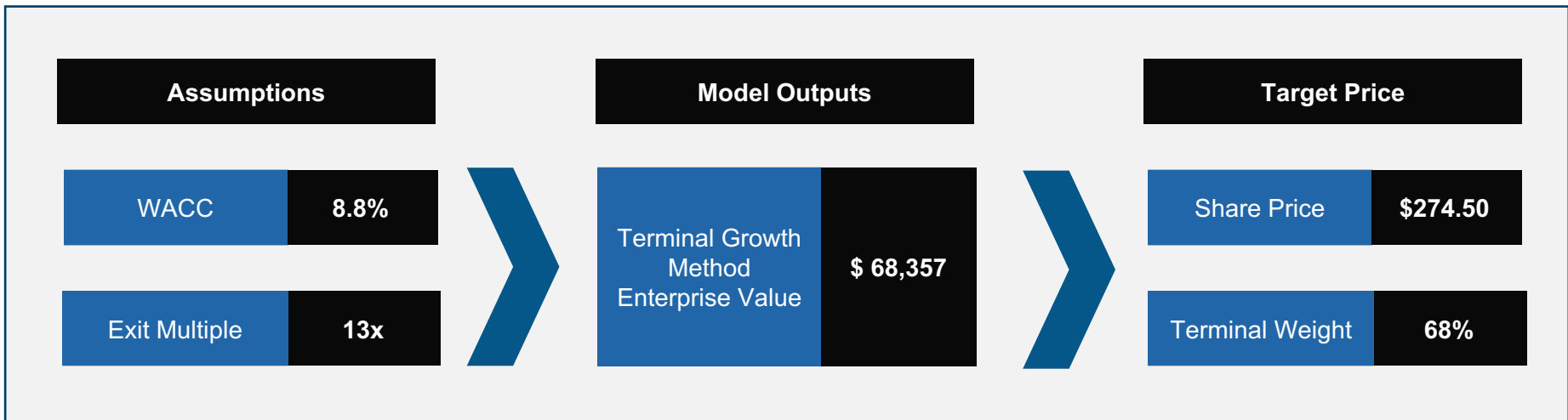
REVENUE FORECAST



NET SYNERGIES FORECAST



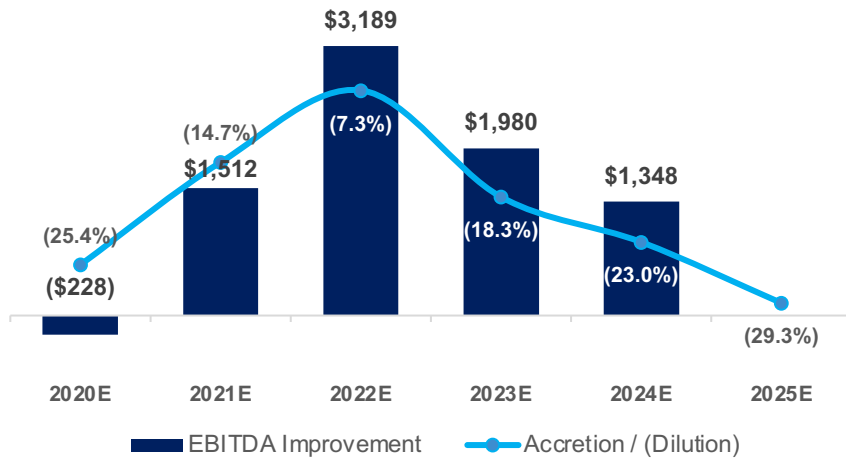
VALUATION BUILD UP



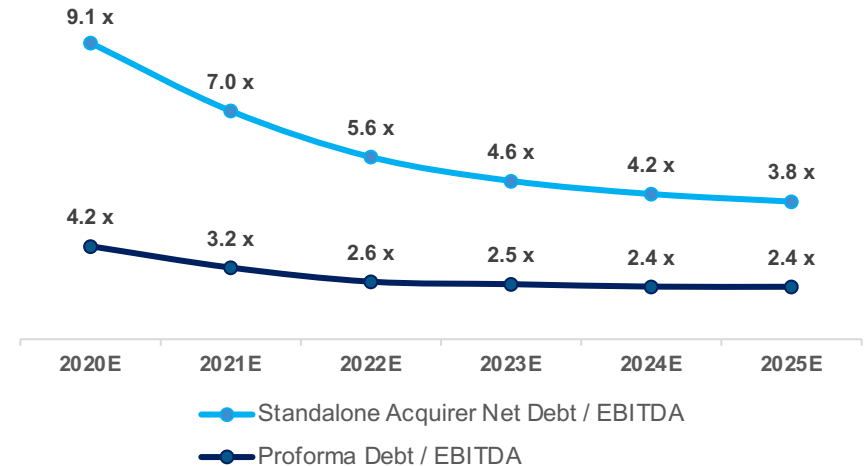
Valuation

Pro Forma Entity

PRO FORMA EBITDA IMPROVEMENT & ACCRETION

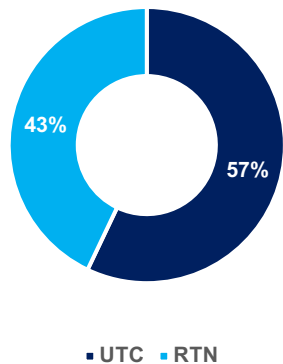


CAPITAL STRUCTURE IMPROVEMENT



DEAL STRUCTURE

Pro-Forma Ownership















Stock Consideration	100%
Exchange Ratio	2.32X
Premium Paid	0%

FAIRNESS OPINION

- The acquisition was dilutive over the forecast period, with most of the synergies coming in around year 3
- Being a dilutive acquisition, we realize that the majority of the value created through the merger is likely to materialize over the long term given Raytheon's growth prospects
- We believe United undersold themselves, limiting the firm's intrinsic value which could have resulted in a compressed exchange ratio. This likely would have led to a potentially accretive acquisition in the short term
- The dilutive nature of the acquisition limits the value to shareholders

Precedent Transactions

Commercial Aerospace and Defence

Target	Acquirer	Deal Value	Premium ⁽¹⁾	Implied TEV/EBITDA ⁽²⁾	Description
		\$29.5B	8.62%	14.0x	<ul style="list-style-type: none"> Friendly acquisition of Rockwell Collins, a producer of aircraft equipment, by United Technologies in a cash/stock deal Deal was announced on September 5th, 2017 and closed on November 27th, 2018
		\$19.6B	--	14.2x	<ul style="list-style-type: none"> Merger of equals between Harris and L3 Technologies in an all-stock merger at an exchange ratio of 1.3 Deal was announced on October 14th, 2018 and closed on July 1st, 2019
		\$16.5B	43.57%	12.8x	<ul style="list-style-type: none"> Friendly acquisition of Goodrich, a producer of aircraft equipment such as landing systems, by United Technologies in an all-cash deal Deal was announced on September 21st, 2011 and closed on July 27th, 2012
		\$9.7B	28.3%	13.5x	<ul style="list-style-type: none"> Friendly acquisition of CSRA, a provider of IT solutions, by General Dynamics in an all-cash deal Deal was announced on February 12th, 2018 and closed on April 4th, 2018
		\$9.2B	25.4%	14.8x	<ul style="list-style-type: none"> Friendly acquisition of Orbital ATK, a defence and space contractor, by Northrop Grumman in an all-cash deal Deal was announced on September 18th, 2017 and closed on June 7th, 2018
		\$3.9B	36.4%	13.8x	<ul style="list-style-type: none"> Friendly acquisition of Orbital ATK, a defence and space contractor, by Northrop Grumman in an all-cash deal Deal was announced on October 10th, 2018 and closed on March 14th, 2019
Average			28.4%	13.9x	

Notes: As at November 30, 2020

1. As of announcement date

2. LTM EBITDA

Source: Bloomberg

SECTION 5.

Conclusion

Conclusion

AN INDUSTRY BEHEMOTH ...

- The merger created an industry giant with exposure across both aerospace and defence
 - This diversification has proven to be key as the pandemic has significantly set back the commercial aerospace industry
 - Additionally, international sales offer further end-market diversification
- On paper, the merger should benefit greatly from synergies as both businesses have complimentary product offerings
 - Raytheon should be able to leverage UTC's commercial aero products to amplify its military offerings and vice versa
 - The pro-forma entity also benefits from a solid balance sheet; which ample cash flow generation and reasonable leverage

... BUT THE JURY IS STILL OUT

- Despite the potential for synergies and the benefits of diversifying the business, concerns are still present for RTX:
 - Recovery in the commercial aero industry is critical, however the outlook remains cloudy given the pandemic
 - The pandemic has also minimized the initial benefits of cost-cutting synergies
 - On a quantitative basis, the value-add of the net synergies are modest and the deal structure may have not been in the best interest of UTC
 - The timing of the merger is also a bit odd, considering UTC was undergoing a significant restructuring and was still attempting to integrate Rockwell Collins into its business

Although the pro-forma entity is a significant player in the A&D industry, post-merger integration and synergy realization will be key amidst a turbulent industry

Thank You



SECTION 6.

Appendix

Appendix

Deal Calculations

DEAL TERMS

Pro-forma Enterprise Value			
Enterprise Value	UTC	RTN	RTN @ Offer
Current Share Price	\$80.00	\$208.00	\$208.00
Premium	N/A	N/A	-%
Offer Price	N/A	N/A	\$208.00
Diluted Shares Outstanding (m)	864	280	280
Equity Value	69,112	58,282	58,282

Funding Requirements and Funding Sources	
Funding Requirements	
Equity Market Value	58,282
Equity Premium Paid	-
Minority Interest	-
Repayment of Debt	4,760
Transaction Fees (1%)	630
Funding Requirements	63,672
Funding Sources Waterfall	
Funding Requirements	63,672
Less: Excess Combined Cash Available	(11,670)
External Funding Requirement	% Stock 52,002
Less: Stock Issuance	100.0% (52,002)
Funding Requirement after Stock Issuance	-
Excess Cash Available at Acquirer	-
Debt Financing Requirement	-
Less: Debt Financing	-
Funding Sources	
Stock Issued	52,002
New Debt	-
Cash from Acquirer	-
External Funding	52,002
Cash Available at Target	11,670
Total Funding Sources	63,672

Pro Forma Share Issuance		
Acquirer Stock Consideration		52,002
Acquirer Diluted Shares Outstanding (mm)		864
New Acquirer Shares Issued (mm)		650
PF Diluted Shares Outstanding (m)		1,514
PF Ownership (Acquirer / Target)	57.1%	42.9%
Implied Exchange Ratio		2.320x

PRO-FORMA CASHFLOWS

Synergies						
	2020	2021	2022	2023	2024	2025
Revenue Synergies (% of combined entity)	0.0%	0.8%	1.0%	0.8%	0.5%	0.0%
Cost Synergies (% of combined entity)	0.2%	1.3%	2.0%	0.8%	0.5%	0.0%
Integration Costs (% of combined entity)	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%
Key Outputs:	2019	2020	2021	2022	2023	2023
% Change in EPS	-7.0%	-8.9%	-4.6%	1.3%	4.6%	4.6%
EBITDA Improvement	4,256	2,188	1,679	2,057	2,082	-

Pro Forma (PF) Financial Summary						
(\$ millions)	Cashflow Forecast					
	2020	2021	2022	2023	2024	2025
Acquirer Revenues	57,074	68,932	82,212	95,641	104,662	112,282
Target Revenues	30,573	32,335	34,432	36,919	39,695	42,691
Total	87,648	101,267	116,644	132,559	144,358	154,973
Revenue Synergies	-	810	1,166	1,060	722	-
Total PF Revenue	87,648	102,077	117,810	133,620	145,079	154,973
Growth		16.5%	15.4%	13.4%	8.6%	6.8%
Acquirer OPEX	50,228	60,663	72,350	84,167	92,107	98,812
Target OPEX	25,620	27,096	28,785	30,827	33,145	35,647
Total	75,848	87,759	101,135	114,995	125,252	134,459
Cost Synergies	(228)	702	2,023	920	626	-
Total PF OPEX	76,075	87,057	99,112	114,075	124,626	134,459
Growth		14.4%	13.8%	15.1%	9.2%	7.9%
Acquirer EBITDA	6,847	8,269	9,862	11,473	12,556	13,470
Target EBITDA	4,953	5,238	5,647	6,092	6,550	7,044
EBITDA Improvement	(228)	1,512	3,189	1,980	1,348	-
Total PF EBITDA	11,572	15,020	18,698	19,545	20,453	20,514
Less: Acquirer D&A	1,717	1,827	1,964	2,129	2,326	2,529
Less: Target D&A	574	633	698	767	843	836
Less: Acquirer Interest	1,746	1,746	1,746	1,746	1,746	1,746
Less: Target Interest	180	180	180	180	180	180
Earnings Before Taxes	7,355	10,634	14,110	14,724	15,358	15,222
Tax Rate	26%	26%	26%	26%	26%	26%
Taxes	1,912.4	2,764.8	3,668.6	3,828.1	3,993.0	3,957.8
Net Income	5,442.8	7,869.0	10,441.3	10,895.4	11,364.8	11,264.4
PF Diluted Shares Outstanding	1,514	1,514	1,514	1,514	1,514	1,514
PF Diluted EPS	3.60	5.20	6.90	7.20	7.51	7.44
Standalone Acquirer Diluted EPS	4.82	6.10	7.44	8.81	9.75	10.53
Accretion / (Dilution)	-25%	-15%	-7%	-18%	-23%	-29%
Proforma Debt / EBITDA 2019E	4.2 x	3.2 x	2.6 x	2.5 x	2.4 x	2.4 x
Standalone Acquirer Net Debt / EBITDA 2019E	9.1 x	7.0 x	5.6 x	4.6 x	4.2 x	3.8 x

Appendix

RTC Projected Income Statement

	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
as at 12/07/2020	2017-12-31	2018-12-31	2019-12-31	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days in a period	365	365	365	366	365	365	365	366	365
Income Statement									
Revenues									
Integrated Defence Systems	5,804	6,180	6,927	7,273	7,710	8,172	8,663	9,182	9,733
Intelligence, Information and Services	6,177	6,722	7,151	7,509	7,959	8,596	9,369	10,306	11,337
Missile Systems	7,787	8,298	8,726	9,162	9,712	10,295	10,912	11,567	12,261
Space Airborne Systems	6,430	6,748	7,427	7,724	8,110	8,597	9,285	10,027	10,830
Forcepoint	608	634	658	684	725	776	838	922	1,014
Eliminations	(1,423)	(1,514)	(1,712)	(1,779)	(1,882)	(2,004)	(2,149)	(2,310)	(2,485)
Total Revenues	25,348	27,058	29,176	30,573	32,335	34,432	36,919	39,695	42,691
Cost of Services and Product Development	18,340	19,573	21,413	22,410	23,701	25,170	26,951	28,977	31,164
Selling, General and Administrative	2,777	2,947	2,989	3,210	3,395	3,615	3,876	4,168	4,483
Total Operating Expenses	21,117	22,520	24,402	25,620	27,096	28,785	30,827	33,145	35,647
Operating Income	4,231	4,538	4,774	4,953	5,238	5,647	6,092	6,550	7,044
Non Operating (Income) Expense, Net									
Retirement Benefits Non-Service Expense	913	1,230	688	688	688	688	688	688	688
Interest Expense	205	184	180	180	180	180	180	180	180
Interest Income	(21)	(31)	(42)	-	-	-	-	-	-
Other (Income) Expense, Net	21	8	(38)	-	-	-	-	-	-
Total Non-Operating (Income) Expense, Net	1,118	1,391	788	868	868	868	868	868	868
Income from Continuing Operations Before Taxes	3,113	3,147	3,986	4,085	4,370	4,779	5,224	5,682	6,176
Federal and Foreign Income Taxes	(1,114)	(264)	(658)	(898.7)	(961.4)	(1,051.3)	(1,149.2)	(1,250.0)	(1,358.7)
Income from Continuing Operations	1,999	2,883	3,328	3,186	3,409	3,727	4,074	4,432	4,817
Income (Loss) from Discontinued Operations, Net of Tax	2	(1)	1	0	0	0	0	0	0
Net Income	2,001	2,882	3,329	3,186	3,409	3,727	4,074	4,432	4,817
Less: Net Income (loss) Attributable to NCI in Subsidiaries	(23)	(27)	(14)	0	0	0	0	0	0
Net Income Attributable to Raytheon Company	2,024	2,909	3,343	3,186	3,409	3,727	4,074	4,432	4,817
Margin	8.0%	10.8%	11.5%	10.4%	10.5%	10.8%	11.0%	11.2%	11.3%
Net Income per Share:									
Basic	7.02	10.31	12.01	11.44	12.24	13.39	14.64	15.92	17.30
Diluted	6.95	10.14	11.93	11.37	12.17	13.30	14.54	15.82	17.19
Weighted Average Shares Outstanding									
Basic	288	282	278	278	278	278	278	278	278
Diluted	291	287	280	280	280	280	280	280	280

Appendix

RTC Projected Balance Sheet

X Statement of Financial Position										
Assets										
Current Assets										
Cash and Cash Equivalents		3,400	3,608	4,292	6,614	9,458	12,595	16,030	19,807	13,735
Receivables, Net		1,324	1,648	1,364	1,524	1,617	1,722	1,846	1,979	12,197
Contract Assets		5,247	5,594	6,122	6,352	6,736	7,173	7,691	8,247	8,894
Inventories		594	758	671	984	1,043	1,111	1,191	1,277	1,377
Prepaid Expenses		761	529	633	673	711	758	812	873	939
Total Current Assets		11,326	12,137	13,082	16,147	19,565	23,358	27,570	32,184	37,143
PPE, Net		2,439	2,840	3,353	3,696	4,033	4,368	4,708	5,056	5,501
Operating Lease Right-of-Use Assets		-	805	875	875	875	875	875	875	875
Goodwill		14,871	14,864	14,882	14,882	14,882	14,882	14,882	14,882	14,882
Other Assets		2,224	2,024	2,374	2,374	2,374	2,374	2,374	2,374	2,374
Total Assets		30,860	32,670	34,566	37,974	41,729	45,857	50,409	55,371	60,774
Liabilities										
Current Liabilities										
Commercial Paper and Current Portion of Long-Term Debt		300	300	1,499	1,499	1,499	1,499	1,499	1,499	1,499
Contract Liabilities		2,927	3,309	3,267	3,410	3,616	3,840	4,112	4,409	4,755
Accounts Payable		1,519	1,964	1,796	1,878	1,992	2,115	2,265	2,428	2,619
Accrued Employee Compensation		1,342	1,509	1,813	1,834	1,940	2,066	2,215	2,382	2,561
Other Current Liabilities		1,260	1,381	1,416	1,529	1,617	1,722	1,846	1,985	2,135
Total Current Liabilities		7,348	8,463	9,791	10,150	10,664	11,242	11,937	12,703	13,569
Accrued Retiree Benefits and Other Long-Term Liabilities		8,287	6,922	8,553	8,553	8,553	8,553	8,553	8,553	8,553
Long-Term debt		4,750	4,755	3,261	3,261	3,261	3,261	3,261	3,261	3,261
Operating Lease Liabilities		-	647	706	706	706	706	706	706	706
Total Liabilities		20,385	20,787	22,311	22,670	23,184	23,762	24,457	25,223	26,089
Stockholders' Equity										
Common Stock		3	3	3	3	3	3	3	3	3
APIC		-	-	-	0	0	0	0	0	0
Accumulated Other Comprehensive Loss		(7,935)	(8,618)	(9,260)	(9,260)	(9,260)	(9,260)	(9,260)	(9,260)	(9,260)
Retained Earnings		17,895	20,087	21,480	24,666	28,075	31,802	35,877	40,309	45,126
Total Stockholders' Equity		9,963	11,472	12,223	15,409	18,818	22,545	26,620	31,052	35,869
Redeemable Noncontrolling Interests		512	411	32	-	-	-	-	-	-
Total Liabilities and Stockholders' Equity		30,860	32,670	34,566	37,974	41,729	45,857	50,409	55,371	60,774
Balance Check		-	-	-	-	-	-	-	-	-

Appendix

RTC DCF Valuation

Raytheon DCF Valuation

General Inputs				Financial Inputs		DCF Assumptions				Intrinsic Value																								
#NAME?				ST Debt		1499		Cost of Equity		9.5%		Sum of PV of FCFF		30%		22,763																		
Bloomberg Ticker				RTC UN		3261		Risk-free rate		1.27%		PV of Terminal Value		70%		52,608																		
Current Price USD				\$		187.50		Cash & Equivalents		4,292		Adjusted Beta		1.04		Enterprise Value		75,371																
Today's Date				7-Dec-20		Financial Net Debt		468		Market Risk Premium		7.9%		Implied EV/EBITDA (2 FY)		13.5x																		
Current Fiscal Year End						Net Debt		468		Cost of Debt		1.70%		Add: Other Assets		-																		
Last Reported Quarter End										WACC Used		8.81%		Less: Minorities		-																		
Reporting Currency				USD						Expected Return & IRR				Less: Adjusted Net Debt		468																		
Stock Price Currency				USD										Less: Preferreds		-																		
1 USD USD FX Rate				1.00		Market Capitalization USD		52,538																										
						Preferred Shares		-		Equity Value Per Share USD		\$		267.32		Equity Value		74,903																
Shares Outstanding Basic				278.4		Other Assets/Investments		-		Expected Return		42.6%				Shares Outstanding		280																
Shares Outstanding F.D.				280.2		Minority Interests		-								Equity Value Per Share USD		\$		267.32														
						Book Equity		-																										
Unlevered FCF																																		
for year end Dec 31				2016-12-30		2017-12-30		2018-12-30		2019-12-30		2020-12-30		2021-12-30		2022-12-30		2023-12-30		2024-12-30		2025-12-31		2027-01-01		2028-01-02		2028-01-03						
Revenue						25,348		27,058		29,176		30,573		32,335		34,432		36,919		39,695		42,672		45,446		48,173								
growth								6.7%		7.8%		4.8%		5.8%		6.5%		7.2%		7.5%		7.5%		6.5%		6.0%								
Bull																						9.0%		8.0%		7.0%								
Base																						7.5%		6.5%		6.0%								
Base																						4.0%		3.0%		2.0%								
EBITDA						4,954		5,271		5,563		5,136		5,432		5,853		6,313		6,788		5,665		6,020		6,371								
margin						19.5%		19.5%		19.1%		16.8%		16.8%		17.0%		17.1%		17.1%		13.3%		13.2%		13.2%								
margin expansion (bps)								-6		-41		-227		0		20		10		0		-383		-3		-2								
EBIT						3,113		3,147		3,986		4,085		4,370		4,779		5,224		5,682		4,054		4,317		4,576								
margin						12.3%		11.6%		13.7%		13.4%		13.5%		13.9%		14.1%		14.3%		9.5%		9.5%		9.5%								
margin expansion (bps)								-65		203		-30		15		36		27		16		-481		0		0								
Bull																						11.0%		10.0%		9.5%								
Base																						9.5%		9.5%		9.5%								
Base																						6.0%		5.5%		5.0%								
Net Synergies																	1,428		1,034		1,049		543		-		-		-		-			
EBIT w/Synergies												5,513		5,404		5,827		5,766		5,682		4,054		4,317		4,576								
tax rate												24.2%		24.2%		24.2%		24.2%		24.2%		24.2%		24.2%		24.2%								
NOPAT																	4,179		4,096		4,417		4,371		4,307		3,073		3,273		3,469		55503	
Capex Intensity						0.0%		2.8%		3.2%		3.0%		3.0%		3.0%		3.0%		3.0%		3.0%		3.0%		3.0%								
Depredation and amortization						550		568		605		574		633		698		767		843		885.3		929.6		976.1								
Capital Expenditure						0		(763)		(942)		(917)		(970)		(1,033)		(1,108)		(1,191)		-		1,280.17		-		1,363.38		-		1,445.18		
Change in Net Working Capital						0		512		(132)		(384)		(61)		(77)		(82)		(70)		(70)		(70)		(70)								
Total Reinvestment						550.0		317.0		-469.0		-727.0		-397.7		-412.3		-423.0		-417.9		-465.0		-504.0		-539.3								
Reinvestment rate as a % of NOPAT												-17.4%		-9.7%		-9.3%		-9.7%		-9.7%		-15.1%		-15.4%		-15.5%								
Unlevered FCF																	3,452		3,699		4,005		3,948		3,889		3,538		3,777		4,008		95571	
WACC				8.8%																														
EV/EBITDA Exit Multiple				13x																														
Discount Factor																	0.1		1.1		2.1		3.1		4.1		5.1		6.1		7.1		7.1	
PV of Unlevered FCF																	3,433		3,381		3,365		3,048		2,760		2,307		2,263		2,207		52608	

Appendix

Raytheon Valuation Sensitivity Table

Target Price:

		EV/EBITDA						
		12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
WACC	10.8%	213.73	224.73	235.73	246.74	257.74	268.74	279.74
	10.3%	219.24	230.60	241.96	253.32	264.68	276.04	287.40
	9.8%	224.93	236.66	248.39	260.12	271.86	283.59	295.32
	9.3%	230.83	242.94	255.06	267.17	279.29	291.41	303.52
	8.8%	236.93	249.44	261.96	274.47	286.99	299.50	312.02
	8.3%	243.25	256.18	269.10	282.03	294.96	307.89	320.82
	7.8%	249.79	263.15	276.51	289.87	303.23	316.58	329.94
	7.3%	256.56	270.37	284.17	297.98	311.79	325.59	339.40
	6.8%	263.58	277.85	292.12	306.39	320.66	334.93	349.20

Upside/Downside:

		EV/EBITDA						
		12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
WACC	10.8%	14%	20%	26%	32%	37%	43%	49%
	10.3%	17%	23%	29%	35%	41%	47%	53%
	9.8%	20%	26%	32%	39%	45%	51%	58%
	9.3%	23%	30%	36%	42%	49%	55%	62%
	8.8%	26%	33%	40%	46%	53%	60%	66%
	8.3%	30%	37%	44%	50%	57%	64%	71%
	7.8%	33%	40%	47%	55%	62%	69%	76%
	7.3%	37%	44%	52%	59%	66%	74%	81%
	6.8%	41%	48%	56%	63%	71%	79%	86%

Appendix

UTC Projected Income Statement

X Income Statement										
Revenues										
Collins Aerospace Systems		14,691	16,634	26,028	35,138	45,679	57,099	68,519	75,371	80,647
Pratt & Whitney		16,160	19,397	20,892	21,937	23,253	25,113	27,122	29,292	31,635
Carrier		17,812	18,922	18,608	0	0	0	0	0	0
Otis		12,341	12,904	13,113	0	0	0	0	0	0
Adjustment		(1,167)	(1,356)	(1,595)	0	0	0	0	0	0
Total Revenues		59,837	66,501	77,046	57,074	68,932	82,212	95,641	104,662	112,282
COGS		44,201	49,985	57,065	43,091	52,044	62,070	72,209	79,020	84,773
Selling, General and Administrative		6,429	6,904	8,331	5,993	7,238	8,632	10,042	10,990	11,790
R&D		2,427	2,462	3,015	2,226	2,688	3,206	3,730	4,082	4,379
Other Operating (Income) Expense		(1,853)	(1,249)	(1,461)	(1,082)	(1,307)	(1,559)	(1,814)	(1,985)	(2,129)
Total Operating Expenses		51,204	58,102	66,950	50,228	60,663	72,350	84,167	92,107	98,812
Operating Income		8,633	8,399	10,096	6,847	8,269	9,862	11,473	12,556	13,470
Non Operating (Income) Expense, Net										
Interest Expense		1,017	1,225	1,773	1,746	1,746	1,746	1,746	1,746	1,746
Interest Income		(108)	(187)	(162)	152	167	160	160	163	161
Other (Income) Expense, Net		(531)	(813)	(756)	700	756	737	731	742	737
Merger/Acquisition Expense		71	175	123	-	-	-	-	-	-
Asset Write Down		0	48	0	-	-	-	-	-	-
Gain/Loss on Sale/Acquisition		(799)	632	(47)	-	-	-	-	-	-
Restructuring		253	311	425	330	330	330	330	330	330
Unrealized (Sale of) Investments		(500)	0	108	-	-	-	-	-	-
Other Abnormal Items		283	306	(59)	-	-	-	-	-	-
Total Non-Operating (Income) Expense, Net		-314	1,391	1,405	1,223	1,152	1,178	1,184	1,171	1,178
Income from Continuing Operations Before Taxes		8,947	7,008	8,691	5,624	7,117	8,685	10,289	11,384	12,292
Federal and Foreign Income Taxes		(2,843)	(2,626)	(2,295)	(1,462)	(1,850)	(2,258)	(2,675)	(2,960)	(3,196)
Income from Continuing Operations		6,104	4,382	6,396	4,161	5,267	6,427	7,614	8,424	9,096
Income (Loss) from Discontinued Operations, Net of Tax										
Net Income		6,104	4,382	6,396	4,161	5,267	6,427	7,614	8,424	9,096
Less: Net Income (loss) Attributable to NCI in Subsidiaries										
Net Income Attributable to Raytheon Company		6,104	4,382	6,396	4,161	5,267	6,427	7,614	8,424	9,096
Margin		10.2%	6.6%	8.3%	7.3%	7.6%	7.8%	8.0%	8.0%	8.1%
Net Income per Share:										
Basic		7.64	5.41	7.40	4.82	6.10	7.44	8.81	9.75	10.53
Diluted		7.64	5.41	7.40	4.82	6.10	7.44	8.81	9.75	10.53
Weighted Average Shares Outstanding										
Basic		790	800.4	854.8	864	864	864	864	864	864
Diluted		799	810	864	864	864	864	864	864	864

Appendix

UTC Projected Balance Sheet

Statement of Financial Position										
Assets										
Current Assets										
Cash and Cash Equivalents		8,985	6,152	7,378	12,078	16,379	21,532	27,625	34,775	42,525
Receivables, Net		12,595	14,271	13,524	10,349	12,533	14,948	17,389	18,978	20,415
Contract Assets (Current)		0	3,486	4,184	2,854	3,447	4,111	4,782	5,233	5,614
Inventories		9,881	10,083	10,950	10,946	13,256	15,810	18,392	20,072	21,593
Other Current Assets		1,397	1,511	1,461	1,141	1,379	1,644	1,913	2,093	2,246
Total Current Assets		32,858	35,503	37,497	37,367	46,993	58,044	70,101	81,151	92,392
PPE, Net		10,186	12,297	15,354	12,926	13,168	13,669	14,410	15,223	16,062
DTAs (long term)		1,723	1,646	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Other Intangible Assets		15,883	26,424	26,046	26,046	26,046	26,046	26,046	26,046	26,046
Goodwill		27,910	48,112	48,063	48,063	48,063	48,063	48,063	48,063	48,063
Other Noncurrent Assets		5,988	7,206	7,668	7,668	7,668	7,668	7,668	7,668	7,668
Security Deposits (Asset)		2,372	3,023	3,477	3,477	3,477	3,477	3,477	3,477	3,477
Total Assets		96,920	134,211	139,716	137,159	147,026	158,579	171,376	183,239	195,320
Liabilities										
Current Liabilities										
Accounts Payable - Trade		9,579	11,080	10,809	8,595	10,409	12,414	14,442	15,761	16,955
Current Portion of Long-Term Debt		2,104	2,876	3,496	3,496	3,496	3,496	3,496	3,496	3,496
Short-Term Borrowings		392	1,469	2,364	2,364	2,364	2,364	2,364	2,364	2,364
Accrued Expenses		12,316	10,223	11,737	8,847	10,684	12,743	14,824	16,223	17,404
Contract Liabilities - Current		-	5,720	6,180	4,566	5,515	6,577	7,651	8,373	8,983
Other Current Liabilities		-	-	-	0	0	0	0	0	0
Total Current Liabilities		24,391	31,368	34,586	27,867	32,468	37,594	42,777	46,217	49,201
Long Term Debt		24,989	41,192	37,788	37,788	37,788	37,788	37,788	37,788	37,788
Pension/Postretirement Liabilities		3,036	4,018	3,502	3,502	3,502	3,502	3,502	3,502	3,502
Operating Lease Liabilities		-	-	2,144	2,144	2,144	2,144	2,144	2,144	2,144
Contract Liabilities - Long Term		-	5,069	5,732	5,732	5,732	5,732	5,732	5,732	5,732
Other Noncurrent Liabilities		12,952	11,845	11,638	11,638	11,638	11,638	11,638	11,638	11,638
Total Liabilities		65,368	93,492	95,390	88,671	93,272	98,398	103,581	107,021	110,005
Total Stockholders' Equity										
Redeemable Noncontrolling Interests		31,552	40,719	44,326	48,487	53,754	60,181	67,795	76,219	85,315
Total Liabilities and Stockholders' Equity		96,920	134,211	139,716	137,159	147,026	158,579	171,376	183,239	195,320
Balance Check		-	-	-	-	-	-	-	-	-