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| **Company: Raytheon** | **Ticker: RTN Current Price: $ 187** | **Sector: Defense Industrials Industry: Aerospace/Defense** | |
| Target Price: 199.95 (Bloomberg 12m Tgt Px)  Stop Loss: $158.95  52 Week High/ Low: 190.25/132.89 | TTM P/E: 24.72 (Bloomberg)  Forward P/E:22.8 (Bloomberg)  EPS: 1.97 (Actual Adj. = Actual GAAP) | Beta: .747 (SPX Bloomberg)  Credit Rating: A3 (Moody)  Rating Outlook: STABLE (Moody’s, Fitch, Standard&Poors) | Market Cap: $53.72 Billion  Avg. Vol: 145,000 (Bloomberg 20 day average)  Dividend Yield: 1.68% (12 month) |

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| **Company Background:** |
| Raytheon Company merged with Hughes Electronics Corp. in 1997. It’s a global provider of ground-based air defense systems, air missiles, airborne and ground based radar systems, communication and other military systems, and is a producer of electronics-based aerospace defense products and systems. The U.S. Government made up 67% of total sales revenue in 2016. RTN operates in five segments: Integrated Defense Systems (IDS); Intelligence, Information and Services (IIS); Missile Systems (MS); Space and Airborne Systems (SAS); and Forcepoint. RTN serves both domestic and international customers, primarily as a prime contractor or subcontractor on a broad portfolio of defense and related programs for government customers. |
| **Industry Outlook:** |
| •Growth in the Defense sub-sector is expected to be primarily driven by the newly elected US Administration’s increased focus on strengthening the nation’s military.  •Rising global tensions has led to international demand for defense and military products is increasing in the Middle East, Eastern Europe, North Korea, and the East and South China Seas. This is in turn resulting in increased defense spending globally, especially, in the United Arab Emirates (UAE), Saudi Arabia, India, South Korea, Japan, India, China, Russia – many of these countries have already started to increase purchases of next generation military equipment.  •Following multiple years of positive, but a subdued rate of growth, the report forecasts the sector revenues will likely grow by about 2.0 percent in 2017.  •The top 100 aerospace & defense (A&D) companies accounted for $709 billion in revenue, resulting in $69 billion in profits for 2016 – an increase from $689 billion in revenue and $64 billion in profits compared with 2015.  •President Trump included an increase in defense spending of about $25 billion in 2017 and is also looking for a 10% increase in US defense spending for 2018 |
| **Investment Thesis:** |
| •The United States has been at war for 93% of its existence. This will likely continue for the next 10+ years with the constant threat from North Korea, Russia, Iran, and potential emerging threats in Africa and South America. Further non-nation states, such as ISIS and other fundamentalists continue their threat of global violence.  •With a Republican currently in the White House and a Republican controlled Congress, there will be continued growing investments into the military and defense funding. |
| **Investment Risks:** |
| * Peace in the U.S. and international markets could adversely affect its business and financial results. * US Government Sequestration and/or significant budget cuts to defense spending. * Significant design failure in its Aerospace division causing a large loss of life will result in decreased sales, thus harming companies diversified earnings * The Government not meeting its proposed defense spending commitments |
| **3-5 take away from last quarter investor call transcript:** |
| Total Net Sales - Third Quarter of 2017 vs. Third Quarter of 2016—The increase in total net sales of $270 million in the third quarter of 2017 compared to the third quarter of 2016 was primarily due to higher external net sales of $173 million at MS primarily due to higher net sales on the Paveway™ program driven by reductions of expected costs to fulfill industrial cooperation agreements and higher net sales on the Excalibur® program due to the recognition of previously deferred precontract costs based on a contract award in the third quarter of 2017. The increase in net income of $25 million in the third quarter of 2017 compared to the third quarter of 2016 was primarily due to the $27 million increase in income from continuing operations. |

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| **Financial Performance:** | **Discounted Cash Flow** |
| **\*\*\*\*\*All Numbers From Bloomberg Unless Noted\*\*\*\*\***   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | |  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 (Current) | | Revenue |  | $24,414 | $23,706 | $22,826 | $23,247 | $24,069 | $24,803 | | Operating Profit |  | $2,986 | $3,004 | $3,223 | $2,863 | $3,082 | $3,310 | | Net Income (avail. to shareholder) |  | $1,906 | $1,974 | $2,127 | $1,849 | $2,052 | $2,198 | | Revenue Growth % |  | -1.5% | -2.9% | -3.7% | 1.8% | 3.5% | 2.5% | | Operating Profit % (VL) |  | 12.2% | 14.3% | 15.9% | 15.1% | 15.8% | 15% | | Net Income Margin (VL) |  | 7.7% | 8.1% | 9.5% | 8.9% | 9.2% | 8.5% | | D/E |  | 57.77% | 42.28% | 54.78% | 49.88% | 49.88% |  | | EPS |  | 5.7 | 6.09 | 6.81 | 6.06 | 6.91 | 7.52 | | PE Ratio (Bloomberg, Dec.) |  | 9.72 | 15.13 | 16.98 | 20.54 | 20.46 | 24.73 | | ROE |  | 23.3% | 20.94% | 21.83% | 21.11% | 21.90% |  | | ROA |  | 7.19% | 7.58% | 8.36% | 7.28% | 7.45% |  | | Dividend Per share (Value Line) |  | $2 | $2.2 | $2.42 | $2.68 | $2.93 | $3.12 | | FCF |  | $1,618 | $2,098 | $1,858 | $1,953 | $2,291 | $1,846 | | Current Ratio |  | 1.566 | 1.689 | 1.787 | 1.601 | 1.661 |  | |  |  |  |  |  |  |  |  | | |  |  |  | | --- | --- | --- | |  | 2013-17 | 2017-22 | | Avg Revenue growth | -.6% |  | | Avg EBITDA Margin | 14.8% |  | | Avg Net Income Margin | 8.4% |  | | Avg Debt/Equity | 51.09% |  | | Avg FCF / Margin | 8.3% |  | | Cost of Debt | | 2.14% | | Tax Rate | | 31% | | Cost of Equity (2017) | | 7.61 | | WACC (2017) | | 7.15 | | Perpetuity growth rate (2017) | |  |   **Analyst Consensus Opinion: Bloomberg**   |  |  |  | | --- | --- | --- | | Buy: 81.8% | Holds: 18.2% | Sells: 0% | | **Independent Firms:** | **Rating** | **Target** | | RBC Securities | Outperform | $209 | | Wells Fargo Sec. | Outperform | $200 | | Cowen | Outperform | $203 | |

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| **Relative Valuation** | **Total Return (TRA FUNCTION BLOOMBERG)** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | UTC | GD | Lockheed | Raytheon | Industry Avg.\* | | P/E | 18.10 | 21.24 | 25.03 | 25.87 | 29.42 | | P/B | 3.48 | 6.25 | 60.69 | 5.42 | 19.94 | | Dividend Yield | 2.36 | 1.57 | 2.52 | 1.7 | 1.33 | | Revn Grth | 2.7 | -1.27 | 9.6 | 4.2 | 3.41 | | NI Grth | 3.47 | 2.19 | 85.86 | 25.2 | 25.45 | | Operating Margin | 14.28 | 13.74 | 11.74 | 13.46 | 9.23 | | Debt / Equity | 86.66 | 37.74 | 945.2 | 52.53 | 269.63 | | Market Cap | 94.41 B | 63.77 B | 91.56 B | 54.39 B | 44.33 B | | Revenue TTM | 57.244 B | 31.35 B | 47.248 B | 24.069 B | 28.40 B | | Net Income TTM | 5.436 B | 3.062 B | 3.753 B | 2.173 B | 1.73 B | | FCF TTM | 3.43 B | 979.25 M | 2.27 B | 1.04 B | 2.35 B | |  |  |  |  |  |  | |  |  |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  | **RTN** | **XAR** | **S&P 500** | | YTD | 27.89% | 29.07% | 15.0% | | 1 Year | 30.57% | 21.47% | 9.54% | | Last 3 Years | 25.37% | 69.66% | 32.6% | | Last 5 Years | 29.77% | 191.92% | 79.7% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | RTN | Industry | | Governance Disclosure Score | 58.93 | 54.82 | | ESG Disclosure: | 30.99 | 33.60 | | Social Disclosure Score | 33.33 | 35.67 | | Environmental Disclosure Score | N/A | 31.30 |   **Prepared by John Lundeen (Oct 27, 2017) with Bloomberg & Value Line** |