



Bloomsburg Investment Group

Equity Analysis
Raytheon Company

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Bloomsburg Investment Group Opinion:

We as the Industrials sector believe that Raytheon Company (RTN) is a very strong hold for our current portfolio. Raytheon has seen a tremendous bump in the stock price since the election of President Trump in large part due to his projected infrastructure. However, we believe that RTN would have seen an increase in value regardless of who was elected to office in part because how they fit in the world of geopolitics. Tensions are high throughout the world, and that may lead to war. When that occurs, RTN will see an even greater demand for their products. Additionally, their financial statements and the valuation that we arrived at are extremely favorable for at least the next three years. For these reasons, we see no reason to remove RTN from our portfolio.

Corporate Summary:

RTN is a technology and innovation leader in the defense sector of industrials. They specialize in defense, civil gov't, and cybersecurity. Since its inception in 1922, RYN has provided many services such as missions systems integration, state-of-the-art electronics, C5I (command, control, communications, computing, cyber, & intelligence), sensing, effects, and mission support systems. Headquartered in Waltham, MA., RTN has a strong global presence with countries such as India, Australia, Poland, the UK, Germany, France, and Canada. The main segments of operation include missile defense, command, control, communications, cyber security, computers, intelligence surveillance, electronic warfare, precision weapons, and training solutions.

Corporate Details:

Name	Raytheon Co
Ticker	RTN
Domicile	United States
Sector	Industrials
Industry	Aerospace & Defense
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	152.87
Price 52 Wk High	157.59
Price 52 Wk Low	124.98
Latest Dividend	0.80
Dividend Yield % TTM	1.96
Beta 5 Yr (Mo-End)	0.69
Avg Daily Volume (3 Mo)	1,614,045.19
Shares Outstanding (mil)	292.88
Number of Analysts	6



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Financial Summary, Year End 2016 (in millions)

Market Capitalization	44,772.57
Total Revenue	24,069.00
Gross Profit	6,122.00
Operating Income	3,240.00
Net Income Cont Ops	2,173.00
Net Income	2,211.00
Current Assets	10,678.00
Cash	3,403.00
Total Assets	30,052.00
Current Liabilities	6,427.00
Long-term Liabilities	13,559.00
Total Liabilities	19,986.00
Total Equity	10,066.00
Operating Cash Flow	2,852.00
Investing Cash Flow	53.00
Financing Cash Flow	-1,930.00
Change In Cash	975.00
EBITDA	3,777.00
Enterprise Value	46,704.57
Capital Expenditure	-625.00
P/E Ratio Forward	20.58
PEG Ratio	4.71
Dividend Yield % TTM	1.96

Financial Highlights

- Roughly 1.5 Debt/Equity Ratio
- Continuous Retained Earnings Growth, enables dividend growth
- Very little debt growth since 2014
- Shrinking Finished Goods Inventory
- Payout Ratio has been increasing
- EBITDA had a 12% increase over 2015
- R&D Investment up 7%
- Effective Tax Rate Increasing
- Cash Flows from Operations up 21% compared to 2015
- Positive FCF for 2016

Investment Growth

Time Period: 4/1/2014 to 3/31/2017



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RTN Prepares Bomb Test; Could net \$4 Billion Contract

Currently, RTN has a contract worth \$100 million to conduct tests on these bombs. However, should these tests be successful, it is expected that RTN will earn an additional contract. These bombs are weather proof and are GPS-guided.

RTN Wins \$113 Million Deal w/ US Navy

RTN was awarded a contract with a duration from 2017 to 2021 to provide the US Navy with their Standard Missile services, which includes engineering and technical services.

RTN to Develop New Software for Dispersed Computers

New development will enable mission data to improve as well as network reliability in the field by using other local computing resources. This is a part of a \$10 million contract designated to design specific algorithms to allow commanders to overpass backed up data processing centers. This is a part of the 2040 Shaping Army Network program.

RTN Missiles Used in Bombing of Syria

According to reports, 59 missiles made by RTN were dropped in Syria on April 6th. These missiles were estimated to have cost between \$800,000-\$1,400,000. The missiles are unique because they can circle for hours and have a specialized beam to lock in on the target.

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Industry Environment:

What makes RTN unique compared to its competitors is that RTN actually sells products to all of the core competitors identified (Lockheed, Northrop, Boeing). However, the industry as a whole is in high demand. Specifically in the United States, demand for military spending is expected to increase due to President Trump's proposed infrastructure spending. Additionally, there is geopolitical tension throughout the world. Countries are going to want to build up supply in the event of a war or attack. This is going to increase demand for the industry as a whole. As technology continues to be implemented into products, one can imagine that costs are going to continue to decline while efficiency will increase.

Competitor Comparison

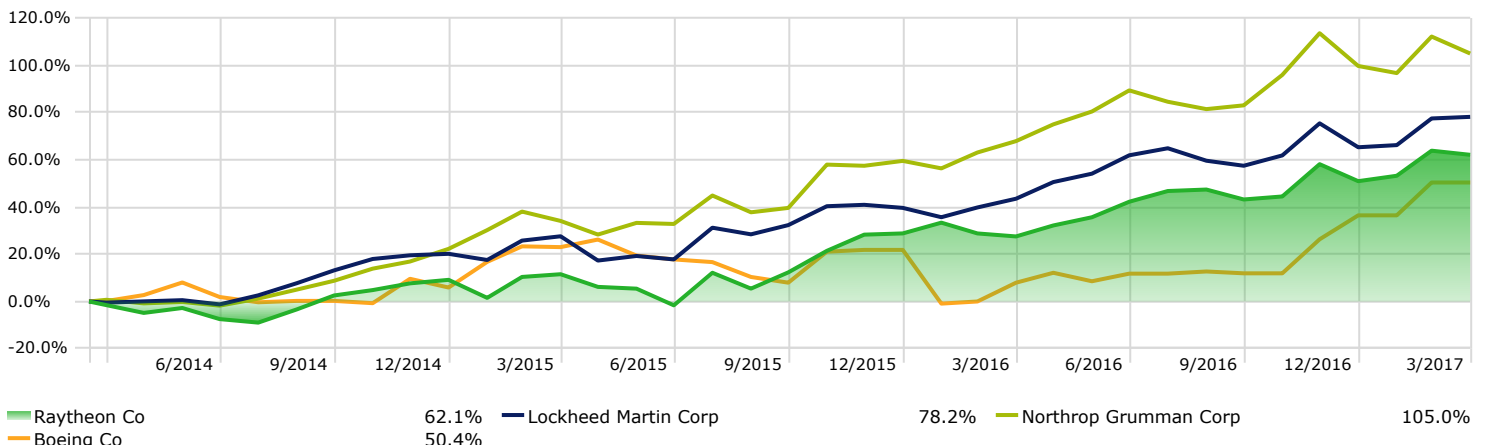
	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
Raytheon Co	24,069.00	3.54	6,122.00	25.44	2,211.00	6.61	9.19	44,772.57	1.66	4.09
Lockheed Martin Corp	47,248.00	16.56	5,062.00	10.71	5,302.00	47.07	11.22	77,898.68	1.20	29.10
Northrop Grumman Corp	24,508.00	4.17	5,777.00	23.57	2,200.00	10.55	8.98	42,510.73	1.22	7.98
Boeing Co	94,571.00	-1.61	13,781.00	14.57	4,895.00	-5.43	5.17	106,202.04	1.25	11.97

Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
Raytheon Co	0.81	7.45	0.53	21.90	0.69	20.58	4.71	4.45	1.96	9.25
Lockheed Martin Corp	0.97	10.92	9.45	230.12	0.67	21.28	3.43	51.55	2.58	8.73
Northrop Grumman Corp	0.98	8.79	1.34	40.81	0.74	20.49	4.89	8.08	1.48	7.72
Boeing Co	1.03	5.31	12.18	136.80		18.83	2.81	129.99	2.06	8.34

Investment Growth

Time Period: 3/18/2014 to 3/31/2017





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Strengths:

Technological Innovation: RTN is at the forefront of innovation in the defense area. They are constantly investing R&D on ways to make their missiles and cyber defense systems as strong as possible.

Sensory Systems: Implementation of sensory systems has allowed more precision w/ missiles.

Government Contracts: RTN gets a lot of contracts from government. Should a war breakout, gov't will operate on a much larger budget for military supplies, enabling companies in the military industry to see growth.

Service Expansion: Services make up a small portion of total revenue, but in an economy that is becoming more service oriented, there is certainly growth available for RTN should they choose to go that route.

Opportunities:

Tax Rate Cuts: RTN has seen its ETR hover around 30% the last three years. Seeing a 10% cut in the tax rate will improve RTN's NI significantly.

Worldwide Military Build-Up: there are high tensions throughout the world. Due to this, many countries are stockpiling weapons in case a war would break out.

Developing Countries: as emerging markets develop, they will be able to increase defense spending, opening a new market for RTN

Weaknesses:

International Exposure: 31.4% of sales are international. Currency risk, especially with UK, is high during periods of geopolitical uncertainty.

Supply Chain Risk: while RTN has a lot of supplies, they are often for very specialized parts. Should one of their suppliers run into issues while creating an input, RTN could suffer backlog on the product.

Specific Market: RTN mostly focuses on missiles. Therefore, they are limited to only those countries that want to increase their missile supply.

Threats:

Defense Budget Cuts: due to such a high reliance on gov't contracts, a decrease in defense spending will decrease revenues

Competition: the defense sector has strong competition. Should a competitor come out with a more improved missile system, RTN will surely lose market share.

Trade Embargos: Should President Trump implement trade embargos on countries that RTN deals with, hurting sales.



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Valuation: Discount Cash Flow Model (DCF)

For our DCF model, we arrived at an intrinsic value of \$174.64. We used cost of equity rather than cost of debt, as the WACC calculation was less than the growth rate, giving us a negative value. We projected very conservative growth for RTN, in spite of the attractive operating environment. We do believe that ST growth will be strong for the next two years, giving us a higher projection than analysts. Regardless, we are very comfortable with the growth rate. Additionally, we scaled back the dividend growth rate to a 4% perpetual growth, far less than the double-digit growth that it has been averaging.

Valuation: Discount Dividend Model (DDM)

Our Discounted Dividend Model (DDM) arrived at an intrinsic value of \$177.32. We decided to use a conservative dividend growth in the ST of 6%, a 5% MT growth, and 4% perpetual. While the perpetual growth rate may be higher than expected, we truly believe that RTN's strategic positioning in the market will enable it to excel compared to its competitors and grow free cash flow.

Valuation: Multiple Valuation

We arrived at a multiple valuation of \$127.54. We used the EPS/Dividend growth rate model, using estimates from CapitalIQ. We do not agree with these results, as CapitalIQ has EPS declining in 2017 compared to 2016. This is highly unlikely, as we are projecting a strong growth in Net Income for 2017. Using an EPS estimate of \$9.00 for 2017 while using CapitalIQ's projected dividend growth rate, we arrive at a more favorable estimate of \$155.12.



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Source: Morningstar Direct