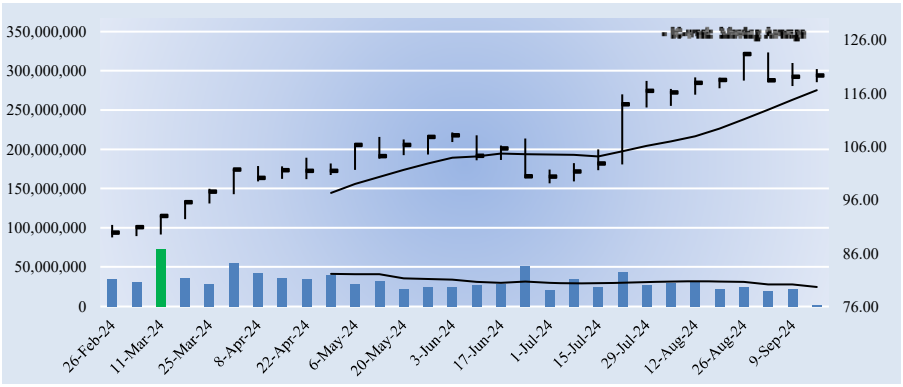
Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Raytheon Technologies is a free cash flow generating powerhouse, aided by the ongoing recovery in the commercial aerospace industry and strength at its defense contracting business.

Stock Chart (weekly)



The week with the highest trading volume out of the last 30 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$169,616
Avg Weekly Vol (30 wks)	31,861
30-week Range (USD)	88.95 - 123.7
Valuentum Sector	Industrials
5-week Return	1.2%
13-week Return	12.9%
30-week Return	32.5%
Dividend Yield %	2.1%
Dividends per Share	2.52
Forward Dividend Payout Ratio	45.6%
Est. Normal Diluted EPS	6.97
P/E on Est. Normal Diluted EPS	17.1
Est. Normal EBITDA	17,545
Forward EV/EBITDA	13.6
EV/Est. Normal EBITDA	11.8
Forward Revenue Growth (5-yr)	5.9%
Forward EPS Growth (5-yr)	30.7%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	6.0%
Return on Assets	2.7%
ROIC, with goodwill	6.2%
ROIC, without goodwill	12.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	43,735
Net Debt	37,148
Total Debt/EBITDA	4.6
Net Debt/EBITDA	3.9
EBITDA/Interest	5.8
Current Ratio	1.0
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Raytheon Technologies provides electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a range of mission support services. It was founded in 1922 and is headquartered in Massachusetts. The firm merged with United Tech in April 2020.

• Raytheon Technologies is well-positioned to capitalize on the sizable international defense market, and geopolitical conditions support increased international defense spending. The outlook for domestic defense spending is also favorable.

• Before United Tech merged with Raytheon in April 2020, United Tech spun out Carrier Global and Otis Worldwide, then its aerospace unit merged with Raytheon to create Raytheon Tech. Dividend adjustments were made accordingly. While the enlarged company has a sizable net debt load, the firm is also a tremendous generator of cash flow.

• Raytheon Technologies' Pratt & Whitney business operating segment faced tremendous headwinds from the COVID-19 pandemic, though the outlook for the commercial aerospace industry has staged an impressive recovery of late. In December 2021, the firm announced a $6.0 billion share buyback program.

• Raytheon Technologies aims to significantly improve its cost structure going forward in the wake of its big merger. Its defense-related backlog is enormous, and Raytheon Tech is also benefiting from robust demand for its commercial aerospace offerings.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**117.00**

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low			■	
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
Danaher	35.2	2.8	108.6%
Honeywell	19.9	2.2	94.6%
Lockheed Martin	21.2	1.9	107.0%
Union Pacific	19.8	2.0	99.7%
Peer Median	20.6	2.1	103.3%
Raytheon Tech	**21.6**	**1.7**	**111.6%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-22	Dec-23	Dec-24
Revenue	67,074	68,920	73,813
Revenue, YoY%	4.2%	2.8%	7.1%
Operating Income	7,417	5,400	10,685
Operating Margin %	11.1%	7.8%	14.5%
Net Income	5,216	3,195	7,851
Net Income Margin %	7.8%	4.6%	10.6%
Diluted EPS	3.51	2.23	5.52
Diluted EPS, YoY %	35.9%	-36.6%	148.2%
Free Cash Flow (CFO-capex)	4,880	5,468	7,466
Free Cash Flow Margin %	7.3%	7.9%	10.1%

In Millions of USD (except for per share items)

Structure of the Aerospace and Defense Industry — GOOD

The global commercial aerospace duopoly is being challenged by encroaching international competitors who are intent on increasing market share, but Boeing and Airbus continue to dominate the large commercial aircraft segment. Long-term demand for commercial aircraft is cyclical and depends on the health of the credit markets, airline customers, and lessors, but massive backlogs and a strong multi-decade demand outlook are reasons for confidence. The defense industry has strong competition in all market segments and remains dependent on government funding decisions and competing budget priorities.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Economic Profit Analysis

ValueCreation™ — GOOD

The best measure of a firm's ability to create value for shareholders is expressed by comparing its return on invested capital (ROIC) with its weighted average cost of capital (WACC). The gap or difference between ROIC and WACC is called the firm's economic profit spread. Raytheon Tech's 3-year historical return on invested capital (without goodwill) is 12.6%, which is above the estimate of its cost of capital of 9.6%. As such, we assign the firm a ValueCreation™ rating of GOOD. In the chart to the right, we show the probable path of ROIC in the years ahead based on the estimated volatility of key drivers behind the measure. The solid grey line reflects the most likely outcome, in our opinion, and represents the scenario that results in our fair value estimate.

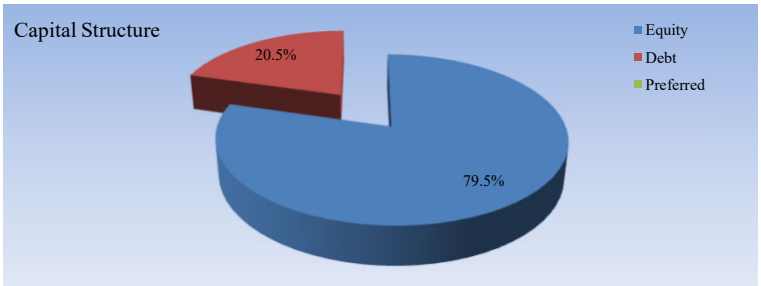
ROIC - WACC Spread, 3-year historical average	2.9%
ROIC - WACC Spread, 5-year projected average	16.9%

These spreads equal the firm's annual average ROIC (excluding goodwill) less its WACC.

ValueTrend™ — POSITIVE

Raytheon Tech receives a ValueTrend™ rating of POSITIVE, which is based on the company's trailing three-year performance. The firm's ROIC (excluding goodwill) increased to 14.1% last year from its trailing 3-year average of 12.6%. We expect ROIC (excluding goodwill) to be in the ballpark of about 34% by the end of our discrete forecast period, with upside potential to about 37% over that time period.

Weighted Average Cost of Capital (WACC)



Cost of Equity

Risk Free Rate Assumption	4.3%
Fundamental Beta (ERP multiplier)	1.0
Estimated Equity Risk Premium	6.5%
Cost of Equity Assumption	**10.8%**

After-tax Cost of Debt

Risk Free Rate Assumption	4.3%
Synthetic Credit Spread	5.00%
Cost of Debt Assumption	9.3%
Cash Tax Rate Assumption	12.0%
After-tax Cost of Debt Assumption	**8.2%**

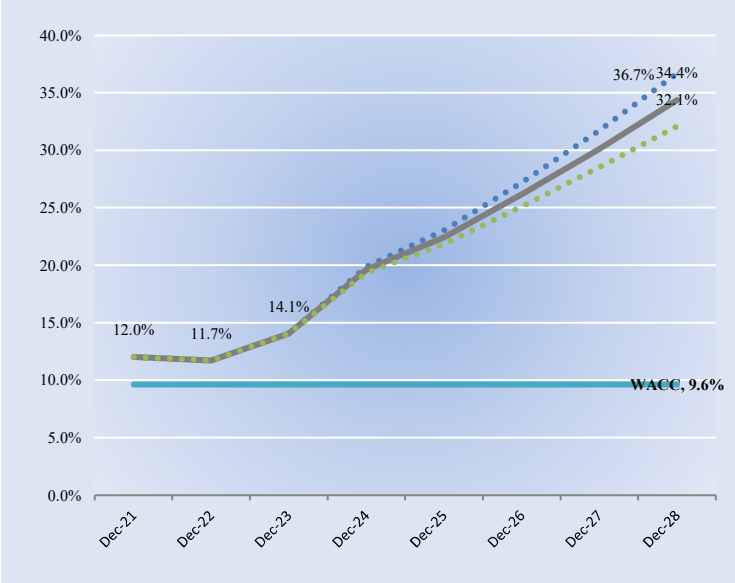
Cost of Preferred Stock

Preferred Dividends	0
Value of Preferred Stock	0
Cost of Preferred Assumption	NA

Weighted Average Cost of Capital (WACC)	**9.6%**

ERP = Equity Risk Premium

Return on Invested Capital (ROIC)



The graph above shows the firm's ROIC (excluding goodwill) compared with historical averages and its WACC.

Assessment of Company Dividend Strategy

Key Strengths

Raytheon Technologies fundamentally transformed its business profile when Raytheon merged with United Tech back in April 2020. We are monitoring the enlarged company's performance and need to see how the new entity performs going forward. Before United Tech merged with Raytheon it spun out Carrier Global and Otis Worldwide, then its aerospace unit merged with Raytheon to form Raytheon Tech. Dividend adjustments were made accordingly. The firm should be able to ride out the storm caused by inflationary headwinds and supply chain hurdles with its new payout policy intact, aided by its stellar cash flow generating abilities.

Potential Weaknesses

Raytheon Technologies aims to significantly improve its cost structure going forward in the wake of its big merger. How effective Raytheon Tech is at achieving targeted cost structure improvements will play an outsized impact on its future cash flows. The firm's defense contracting business has held up quite well in recent years and its commercial aerospace business has staged an impressive recovery of late after getting crushed by the COVID-19 pandemic. Raytheon Tech's large net debt load limits its financial flexibility. Competing capital allocation priorities, such as share repurchases, may weigh negatively on the pace of the firm's future dividend increases.

Note: Valuentum may provide an adjusted ROIC measure to better reflect the economic substance of a company's operations, as in the case of companies with negative invested capital.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

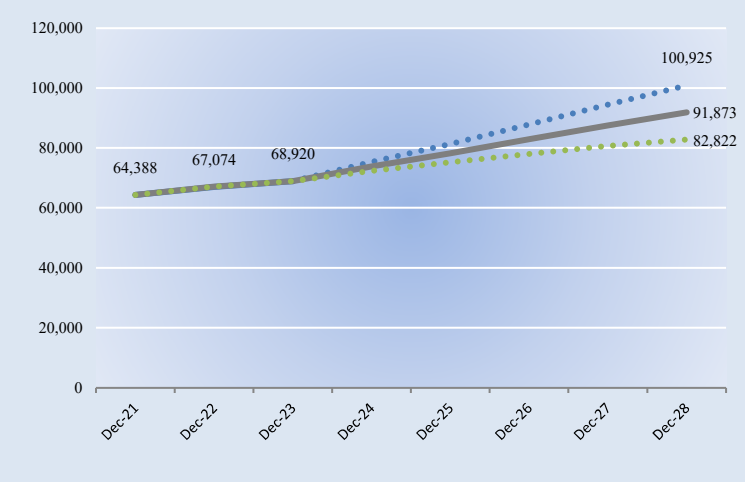
Growth Analysis

Revenue Growth — MODEST

		Last Fiscal Year Revenue	3-year Historical CAGR	5-year Projected CAGR
Raytheon Tech	USD	**68,920**	**6.8%**	**5.9%**
Danaher	USD	23,890	2.3%	6.8%
Honeywell	USD	36,662	4.0%	6.0%
Lockheed Martin	USD	67,571	1.1%	4.9%
Union Pacific	USD	24,119	7.3%	4.5%
Peer Median			3.1%	5.4%
Industry Median			7.9%	5.5%

Raytheon Tech's revenue expansion has been greater than the median of its peer group but has trailed that of its industry group during the past three years. We expect the firm's revenue expansion to outpace the median of its peer group and industry group during the next five years. Our growth assessment of each firm is based on the firm's 5-year forward revenue CAGR. Raytheon Tech's future pace of revenue growth is MODEST, in our opinion.

Projected Revenue (in millions of USD) Source: Company Filings, Valuentum Projections



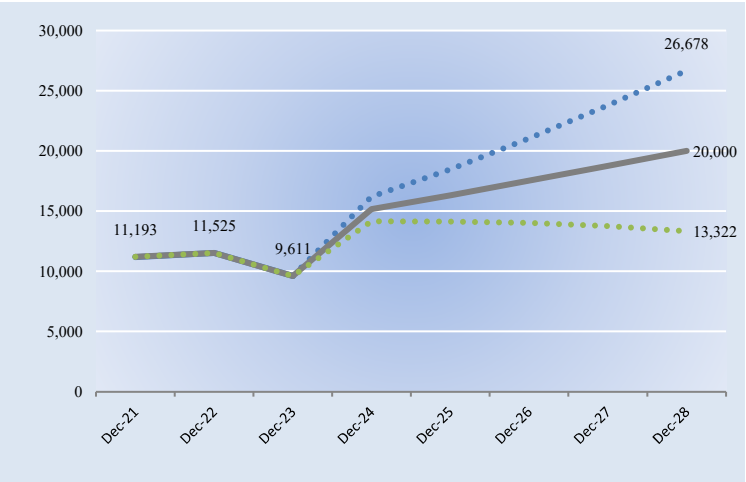
In the chart above, we show our baseline forecast for revenue as well as potential upside and downside cases.

EBITDA Growth

		Last Fiscal Year EBITDA	3-year Historical CAGR	5-year Projected CAGR
Raytheon Tech	USD	**9,611**	**17.5%**	**15.8%**
Danaher	USD	7,547	4.6%	13.0%
Honeywell	USD	8,730	4.5%	8.5%
Lockheed Martin	USD	10,225	0.7%	5.5%
Union Pacific	USD	11,452	4.6%	7.9%
Peer Median			4.5%	8.2%
Industry Median			8.8%	10.0%

Raytheon Tech's EBITDA expansion has been greater than that of both its peer group and industry group during the past three years. We expect the firm's EBITDA expansion to outpace its peer group and industry group during the next five years. Raytheon Tech sports the highest expected EBITDA growth rate among peers.

Projected EBITDA (in millions of USD) Source: Company Filings, Valuentum Projections



In the chart above, we show our baseline forecast for EBITDA as well as potential upside and downside cases.

Net Income Growth

		Last Fiscal Year Net Income	3-year Historical CAGR	5-year Projected CAGR
Raytheon Tech	USD	**3,195**	**-196.8%**	**29.4%**
Danaher	USD	4,221	9.3%	15.4%
Honeywell	USD	5,658	5.8%	9.5%
Lockheed Martin	USD	6,920	0.4%	6.3%
Union Pacific	USD	6,379	6.0%	8.9%
Peer Median			5.9%	9.2%
Industry Median			11.1%	10.2%

Raytheon Tech's net income expansion has trailed both that of its peer group and its industry group during the past three years. We expect the firm's net income expansion to outpace its peer group and industry group during the next five years. Raytheon Tech sports the highest expected net income growth rate among peers.

Projected Net Income (in millions of USD) Source: Company Filings, Valuentum Projections

In the chart above, we show our baseline forecast for net income as well as potential upside and downside cases.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

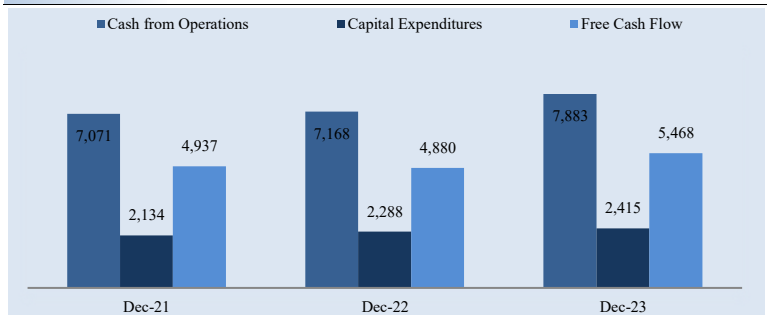
Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Cash Flow and Financial Leverage Analysis

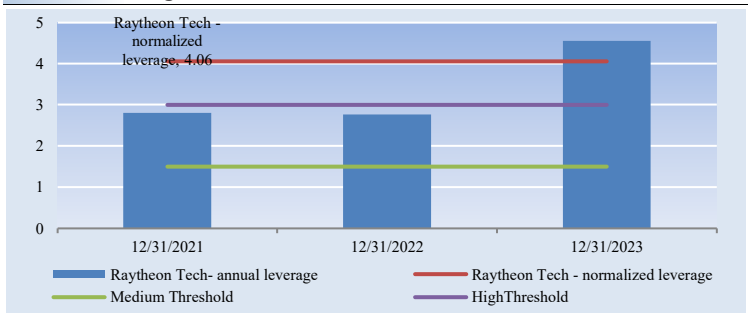
Cash Flow Generation — STRONG



The bars above show the firms operating cash flow, capital expenditures, and free cash flow, respectively.

Firms that generate a free cash flow margin (free cash flow divided by total revenue) above 5% are usually considered cash cows. Raytheon Tech's free cash flow margin has averaged about 7.6% during the past 3 years. As such, we think the firm's cash flow generation is relatively STRONG. The free cash flow measure shown above is derived by taking cash flow from operations less capital expenditures and differs from enterprise free cash flow (FCFF), which we use in deriving our fair value estimate for the company. For more information on the differences between these two measures, please visit our website at Valuentum.com. At Raytheon Tech, cash flow from operations increased about 11% from levels registered two years ago, while capital expenditures expanded about 13% over the same time period.

Financial Leverage — HIGH



The bars above show the firm's annual debt-to-EBITDA. The red line shows the firm's normalized measure.

Firms that exhibit high leverage tend to be more risky than firms with relatively low debt loads, all else equal. We measure financial leverage by taking a firm's current total debt load and dividing it by the firm's trailing average 3-year annual EBITDA. Firms that are over 3 for this metric, we rate as having high leverage. Companies that have less than 1.5 turns of leverage (or a measure below 1.5), we rate as having low leverage. Raytheon Tech's normalized debt-to-EBITDA measure of about 4.06 puts it in the HIGH camp.

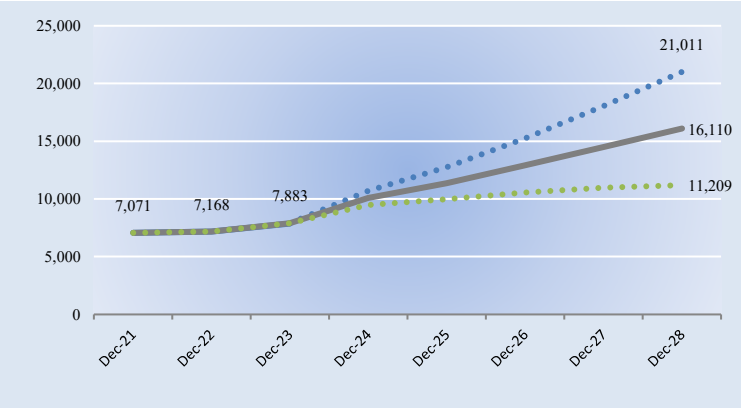
Cash Flow from Operations

		Last Fiscal Year CFO	3-year Historical CAGR	5-year Projected CAGR
Raytheon Tech	USD	**7,883**	**29.8%**	**15.4%**
Danaher	USD	7,164	4.9%	10.9%
Honeywell	USD	5,340	-4.9%	13.9%
Lockheed Martin	USD	7,920	-1.1%	7.3%
Union Pacific	USD	8,379	-0.6%	9.6%
Peer Median			-0.9%	10.3%
Industry Median			7.3%	11.3%

Raytheon Tech's cash flow from operations expansion has been greater than that of both its peer group and industry group during the past three years. We expect the firm's cash flow from operations expansion to outpace its peer group and industry group during the next five years. Raytheon Tech sports the highest expected cash flow from operations growth rate among peers.

Projected Operating Cash Flow (in millions of USD)

Source: Company Filings, Valuentum Projections



In the chart above, we show our baseline forecast for CFO as well as potential upside and downside cases.

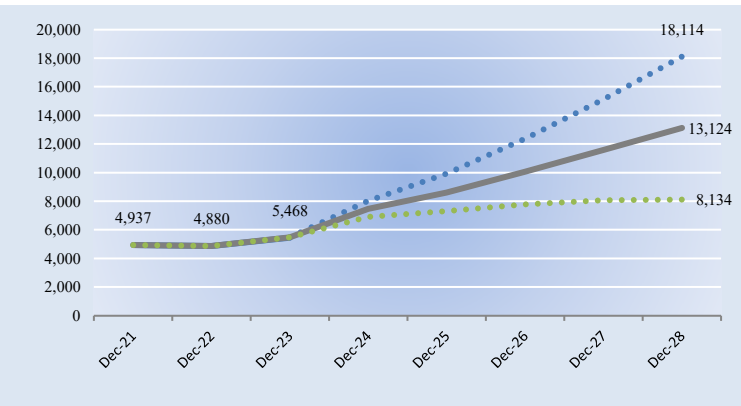
Free Cash Flow (CFO-capital expenditures)

		Last Fiscal Year FCF	3-year Historical CAGR	5-year Projected CAGR
Raytheon Tech	USD	**5,468**	**44.5%**	**19.1%**
Danaher	USD	5,781	2.2%	13.0%
Honeywell	USD	4,301	-6.7%	16.8%
Lockheed Martin	USD	6,229	-1.0%	8.8%
Union Pacific	USD	4,773	-5.3%	15.0%
Peer Median			-3.1%	14.0%
Industry Median			3.6%	13.3%

Raytheon Tech's free cash flow expansion has been greater than that of both its peer group and industry group during the past three years. We expect the firm's free cash flow expansion to outpace its peer group and industry group during the next five years. Raytheon Tech sports the highest expected free cash flow growth rate among peers.

Projected Free Cash Flow (in millions of USD)

Source: Company Filings, Valuentum Projections



In the chart above, we show our baseline forecast for free cash flow as well as potential upside and downside cases.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

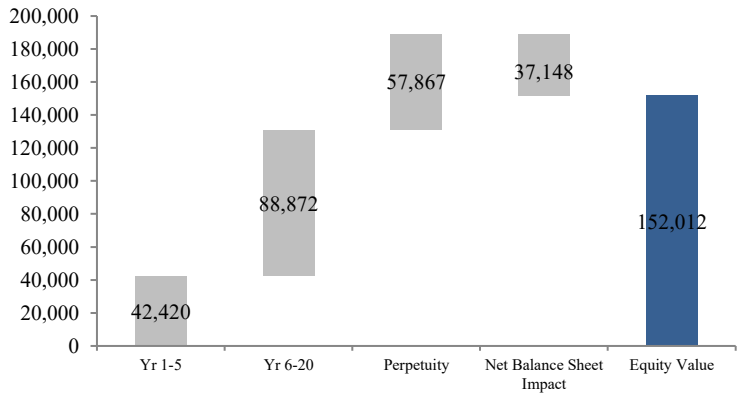
Valuation Analysis

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	5.9%	
Avg. EBIT Margin %	15.4%	
Avg. Cash Tax Rate %	12.0%	
Earnings Before Interest CAGR %	16.1%	
Earnings Per Share CAGR %	30.7%	
Free Cash Flow to the Firm CAGR %	11.3%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	3.4% (II)	3% (III)
Cost of Equity %	10.8%	
After-tax Cost of Debt %	5.1%	
Discount Rate (WACC) %	9.6%	
Synthetic credit spread = 5%	Results	
Phase I Present Value	42,420	
Phase II Present Value	88,872	
Phase III Present Value	57,867	
Total Firm Value	189,160	
Net Balance Sheet Impact	-37,148	
Total Equity Value	152,012	
Diluted Shares Outstanding	1,421.0	
Fair Value per Share	$107.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Raytheon Tech and the break down to the firm's total equity value, which we estimate to be about 152.01USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact is displayed. We divide total equity value by diluted shares outstanding to arrive at our $107 per share fair value estimate.



In Millions of USD

DCF Valuation Summary

We think Raytheon Tech is worth $107 per share with a fair value range of $86.00 - $128.00. The margin of safety around our fair value estimate is driven by the firm's LOW ValueRisk™ rating, which is derived from an evaluation of the historical volatility of key valuation drivers and a future assessment of them. Our near-term operating forecasts, including revenue and earnings, do not differ much from consensus estimates or management guidance. Our model reflects a compound annual revenue growth rate of 5.9% during the next five years, a pace that is lower than the firm's 3-year historical compound annual growth rate of 6.8%. Our model reflects a 5-year projected average operating margin of 15.4%, which is above Raytheon Tech's trailing 3-year average. Beyond year 5, we assume free cash flow will grow at an annual rate of 3.4% for the next 15 years and 3% in perpetuity. For Raytheon Tech, we use a 9.6% weighted average cost of capital to discount future free cash flows.

Enterprise Free Cash Flow

Fiscal Year End:	12/31/2021	12/31/2022	12/31/2023
Earnings before Interest	6,681	6,236	7,129
+ Depreciation	2,118	2,151	2,126
- Capital Expenditures	2,134	2,288	2,415
- Change in Working Capital	1,334	-548	-1,529
- Acquisitions	-791	-28	-6
Enterprise Free Cash Flow (FCFF)	6,122	6,675	8,375

In Millions of USD

Our future forecasts for key valuation drivers result in a future free enterprise cash flow stream. Above, we show how we calculate enterprise free cash flow and the historical performance of the metric for Raytheon Tech. Over the next five years, we expect the firm's enterprise free cash flow to expand at about a 11% compound annual growth rate. During years 6 through 20, we expect the measure to grow at a 3.4% rate. Beyond year 20 (in perpetuity), we grow the firm's free cash flow at inflation (3%).

Source: Company Filings, Valuentum Projections

Company Metrics versus Peer and Industry Medians

Company Name	Valuentum Buying Index™	Forward Price-to-Earnings	P/E on Est. Normal Diluted EPS	Price/Earnings-to-Growth (PEG), 5-year	Forward EV/EBITDA	EV/Est. Normal EBITDA	5-year Forward Earnings per Share CAGR	3-year Hist Avg ROIC, without goodwill	Dividend Yield %	Stock Price / Fair Value Estimate
Raytheon Tech	**6**	**21.6**	**17.1**	**1.7**	**13.6**	**11.8**	**30.7%**	**12.6%**	**2.1%**	**111.6%**
Danaher	6	35.2	26.6	2.8	24.0	18.9	14.9%	25.2%	0.4%	108.6%
Honeywell	4	19.9	16.6	2.2	14.6	12.7	11.2%	52.5%	2.1%	94.6%
Lockheed Martin	5	21.2	17.3	1.9	16.0	13.8	7.9%	47.0%	2.2%	107.0%
Union Pacific	3	19.8	15.7	2.0	13.6	11.6	11.1%	13.2%	2.3%	99.7%
Peer Median	4.5	20.6	16.9	2.1	15.3	13.3	11.1%	36.1%	2.2%	103.3%
Industry Median	4.5	21.2	16.9	2.2	14.8	12.5	11.2%	23.5%	1.7%	99.6%

View back of report for a full list of industry constituents covered by Valuentum. VBI: Valuentum's ranking for the attractiveness of this investment at the date of the report.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

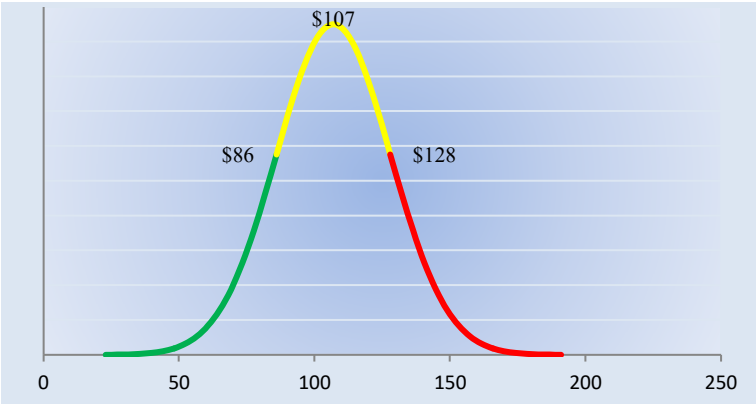
Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Margin of Safety Analysis

Range of Potential Outcomes



Our discounted cash flow process values each firm on the basis of the present value of all future free cash flows. Although we estimate the firm's fair value at about $107 per share, every company has a range of probable fair values that's created by the uncertainty of key valuation drivers (like future revenue or earnings, for example). After all, if the future were known with certainty, we wouldn't see much volatility in the markets as stocks would trade precisely at their known fair values. Our ValueRisk™ rating sets the margin of safety or the fair value range we assign to each stock. In the graph above, we show this probable range of fair values for Raytheon Tech. We think the firm is attractive below $86 per share (the green line), but quite expensive above $128 per share (the red line). The prices that fall along the yellow line, which includes our fair value estimate, represent a reasonable valuation for the firm, in our opinion.

ValueRisk™ LOW

Raytheon Tech receives a ValueRisk™ rating of LOW based of the historical volatility of key drivers of economic value creation. The fair value range sets the margin of safety around our fair value estimate of the firm's shares.

Revenue Volatility	7.9%
Gross Margin Volatility	18.3%
Earnings (EBI) Volatility	5.3%
Cash Flow (FCFF) Volatility	31.9%
Fair Value Range	20.0%

The Fair Value Range sets the premium or discount on our estimate of the firm's fair value.

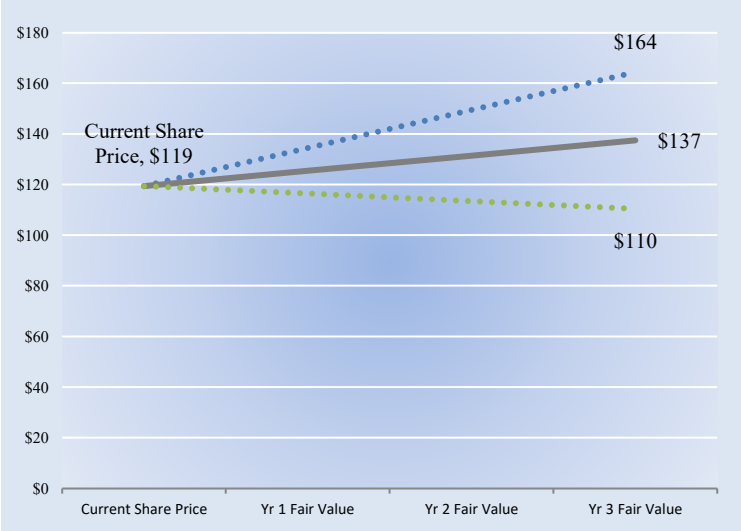
Upside and Downside Probabilities

Probability (fair value < $0)	Less than 0.1%
Probability (fair value > 2x current share price)	0.00%

We strive to answer a few questions that investors often ask: 1) What are the chances of a total loss of investment in this company? and 2) What is the chance that the company is really worth twice what I paid for it? The probability (fair value < 0) strives to answer the first question. It indicates the chance that the firm may encounter insolvency based on the characteristics of its cash flow stream, capital structure, and risk profile. The probability (fair value > 2x current share price) strives to answer the second question. It is our best estimate of whether investors are participating in a half-off sale by buying the company's shares at current prices.

Future Path of Fair Value

We estimate Raytheon Tech's fair value at this point in time to be about $107 per share. As time passes, however, companies generate cash flow and pay out cash to shareholders in the form of dividends. The chart to the right compares the firm's current share price with the path of Raytheon Tech's expected equity value per share over the next three years, assuming our long-term projections prove accurate. The range between the resulting downside fair value and upside fair value in Year 3 represents our best estimate of the value of the firm's shares three years hence. This range of potential outcomes is also subject to change over time, should our views on the firm's future cash flow potential change. The expected fair value of $137 per share in Year 3 represents our existing fair value per share of $107 increased at an annual rate of the firm's cost of equity less its dividend yield. The upside and downside ranges are derived in the same way, but from the upper and lower bounds of our fair value estimate range.



The graph above shows the expected future fair value of the firm's shares relative to its current stock price.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

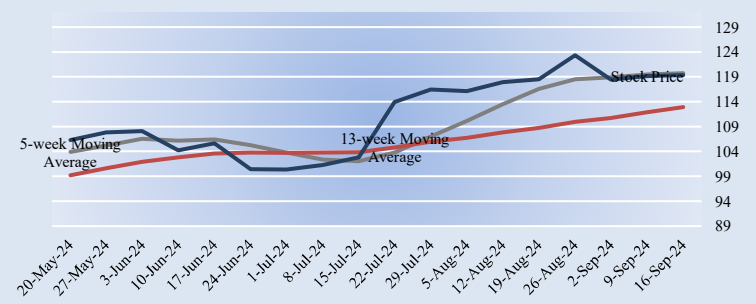
Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

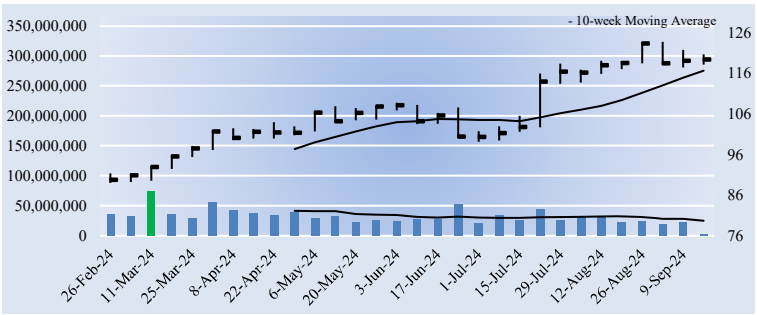
Technical Analysis

Technical Evaluation — BULLISH



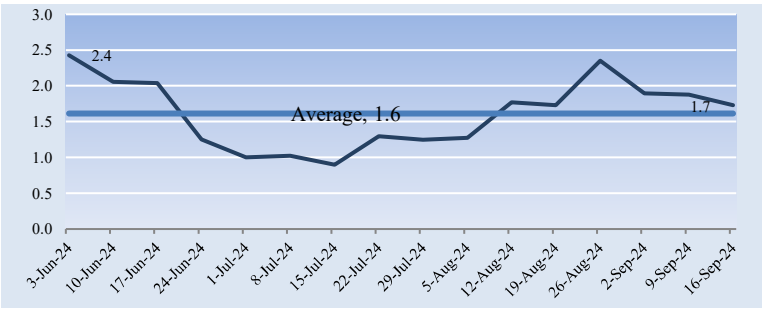
The firm's near-term moving average (5-week, grey line) and medium-term moving average (13-week, red line) are shown in the chart above. Typically, when a shorter-term moving average crosses a medium- or longer-term moving average from below, it represents a bullish signal. If the short-term moving average crosses from above, traders often view this as bearish. Raytheon Tech's 5-week moving average resides above its 13-week measure, indicating a BULLISH trend. We'd grow wary of the firm's technicals should its 5-week moving average drop below its 13-week moving average, as the firm's 30-week uptrend could be threatened if this occurs.

30-week Price and Volume Chart (weekly)



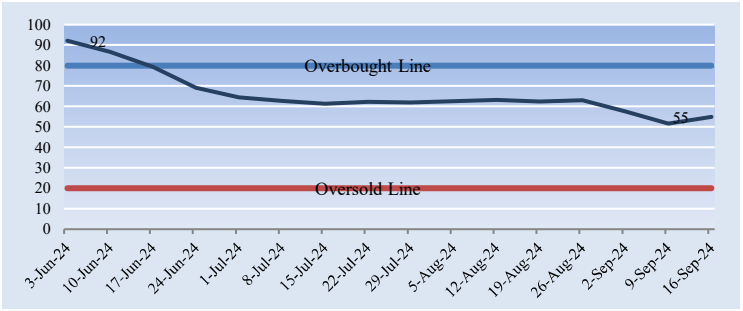
In the chart above, we pinpoint the heaviest accumulation or distribution week of the firm, determined by the week with the highest trading volume during the past 30 weeks. A heavy accumulation (buying) or distribution (selling) week often determines the future near-term direction of the firm's share price, as money managers continue to move in or out of the stock in the days and weeks ahead driving the stock up or down, respectively. For Raytheon Tech, the week with the highest trading volume out of the last 30 weeks was a week of heavy buying, or accumulation (green bar). Such market activity could indicate a reversal of a downtrend or further confirmation of the firm's uptrend.

Upside/Downside Volume — BULLISH



The level and trend of the Upside/Downside (U/D) volume ratio reveals whether institutional participation has been bullish or bearish as of late. Raytheon Tech's U/D volume ratio of 1.7 is not only greater than 1 but also is better than its trailing average, indicating BULLISH institutional interest during the past several weeks.

Money Flow Index (MFI) — NEUTRAL



The Money Flow Index (MFI) is an oscillator that uses price and volume to measure buying and selling pressure. Chartists often look for overbought (above 80) and oversold (below 20) levels to warn of unsustainable near-term price extremes. Raytheon Tech's MFI of 55 is neutral, suggesting the firm's stock is neither overbought nor oversold at this time. However, a score over 50 tends to favor bulls. The MFI can also be used to gauge the strength or weakness of a firm's price trend. In Raytheon Tech's case, its stock has generally increased during the past several weeks, but money flow or momentum has deteriorated, a bearish divergence and unhealthy trend. We'd keep a close watch for deteriorating technicals.

Relative Price Strength — STRONG

A firm's relative price strength can be assessed over any number of time horizons. We show the firm's performance over the past 5 weeks, 13 weeks, and 30 weeks below. In arriving at our relative strength rating for each company, we assess the past 13 weeks, which includes the market's reaction to the firm's most recently reported quarter, where applicable, and other more recent economic events. During the past 13 weeks, Raytheon Tech's shares returned 12.9%, while the market benchmark returned 8.7%. We think Raytheon Tech's 13-week relative price performance is STRONG.

5-week Company Performance	1.2%
5-week Market Benchmark Performance	5.0%
5-week Relative Performance vs. Market Benchmark	-3.9%
13-week Company Performance	12.9%
13-week Market Benchmark Performance	8.7%
13-week Relative Performance vs. Market Benchmark	**4.2%**
30-week Company Performance	32.5%
30-week Market Benchmark Performance	18.9%
30-week Relative Performance vs. Market Benchmark	13.6%

Timeliness Matrix™

Equity Valuation

Relative Strength	Overvalued	Fairly Valued	Undervalued
Strong		■	
Neutral			
Weak			

Firms that are undervalued and currently showing near-term pricing strength score near the top right of the matrix.

Companies that are undervalued and showing near-term relative price strength could represent timely buys, as the stock may be attractive to both value and momentum investors. A cross section of the firm's equity valuation and its relative share price strength is shown in the matrix above. We tend to prefer undervalued stocks that have strong pricing momentum, also called Valuentum stocks.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Pro Forma Income Statement

In Millions of USD (except for per share items)

	Dec-21	Dec-22	Dec-23	*Dec-24*	*Dec-25*
	---------- Historical ----------			---------- *Projected* ----------	
Total Revenue	64,388	67,074	68,920	*73,813*	*78,242*
Cost of Goods Sold	51,897	53,406	56,831	*56,481*	*59,570*
Selling, General and Administrative Expenses	3,130	3,730	3,981	*3,956*	*4,173*
Other Operating Expenses	2,725	2,521	2,708	*2,691*	*2,838*
Operating Income	**6,636**	**7,417**	**5,400**	***10,685***	***11,661***
Unusual items	0	0	0	*0*	*0*
Operating Income, including unusual items	6,636	7,417	5,400	*10,685*	*11,661*
Interest Expense	(1,330)	(1,300)	(1,653)	*(1,653)*	*(1,653)*
Other Non-operating Income	(197)	0	89	*100*	*100*
Pre-tax Income	**5,109**	**6,117**	**3,836**	***9,132***	***10,108***
Income Taxes	964	790	456	*1,096*	*1,213*
Income after tax	**4,145**	**5,327**	**3,380**	***8,036***	***8,895***
Minority Interest and Equity Income	(248)	(111)	(185)	*(185)*	*(185)*
Net Income, excluding extra items	3,897	5,216	3,195	*7,851*	*8,710*
Income Available to Common, excluding extra items	**3,897**	**5,216**	**3,195**	***7,851***	***8,710***
Diluted Earnings per Share, excluding extra items	**2.58**	**3.51**	**2.23**	***5.52***	***6.19***
Diluted Weighted Shares Outstanding	1,508.5	1,485.9	1,435.4	*1,421.0*	*1,406.8*

Source: Company Filings, Xignite, Valuentum Projections

Note: Pro forma data in discounted cash-flow valuation may reflect significant adjustments from GAAP accounting data, including cash (not effective) tax rates and other analytical adjustments on a backward-looking and forward-looking basis. No individual data, by itself, found in this report should be used to make any investment decision.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Pro Forma Balance Sheet

In Millions of USD (except for per share items)

	Dec-21	Dec-22	Dec-23	*Dec-24*	*Dec-25*
	---------- Historical ----------			---------- *Projected* ----------	
Assets					
Total Cash (including marketable securities)	7,832	6,220	6,587	*8,758*	*11,954*
Inventory	9,178	10,617	11,777	*11,634*	*12,195*
Accounts Receivable	21,022	20,642	22,977	*24,559*	*25,980*
Other Current Assets	4,018	4,964	7,076	*7,076*	*7,076*
Total Current Assets	**42,050**	**42,443**	**48,417**	***52,027***	***57,205***
Gross Fixed Assets	29,595	30,945	33,030	*35,638*	*38,377*
(Accumulated Depreciation)	(12,665)	(13,946)	(15,644)	*(18,043)*	*(20,586)*
Net Property, Plant, and Equipment	16,930	16,999	17,386	*17,595*	*17,791*
Goodwill, Net	54,436	53,840	53,699	*53,699*	*53,699*
Intangibles, Net	38,516	36,823	35,399	*33,314*	*31,229*
Other Long-term Assets	9,472	8,759	6,968	*6,968*	*6,968*
Total Assets	**161,404**	**158,864**	**161,869**	***163,603***	***166,892***
Liabilities					
Accounts Payable	8,751	9,896	10,698	*10,561*	*11,226*
Other Current Liabilities	26,540	27,998	34,591	*35,470*	*36,118*
Current Portion of Long-term Debt	158	1,220	1,472	*1,472*	*1,472*
Total Current Liabilities	**35,449**	**39,114**	**46,761**	***47,503***	***48,816***
Long-term Debt	31,226	30,606	42,263	*42,263*	*42,263*
Other Long-term Liabilities	21,661	16,512	13,047	*13,047*	*13,047*
Total Liabilities	**88,336**	**86,232**	**102,071**	***102,813***	***104,126***
Preferred Stock	0	0	0	*0*	*0*
Shareholders' Equity					
Common Stock and Additional Paid in Capital	37,483	37,939	37,055	*37,055*	*37,055*
Retained Earnings	50,265	52,269	52,154	*56,609*	*61,781*
Other Equity	(14,680)	(17,576)	(29,411)	*(32,874)*	*(36,070)*
Total Shareholders' Equity	**73,068**	**72,632**	**59,798**	***60,790***	***62,766***
Total Liabilities and Shareholders' Equity	**161,404**	**158,864**	**161,869**	***163,603***	***166,892***

Source: Company Filings, Xignite, Valuentum Projections

Note: Pro forma data in discounted cash-flow valuation may reflect significant adjustments from GAAP accounting data, including cash (not effective) tax rates and other analytical adjustments on a backward-looking and forward-looking basis. No individual data, by itself, found in this report should be used to make any investment decision.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Pro Forma Cash Flow Statement

---------- Historical ---------- ---------- *Projected* ----------

In Millions of USD (except for per share items)

	Dec-21	Dec-22	Dec-23	*Dec-24*	*Dec-25*
Cash from Operations					
Net Income	3,864	5,197	3,195	*8,036*	*8,895*
Depreciation and Amortization	4,557	4,108	4,211	*4,484*	*4,628*
Deferred Income Taxes	0	0	0	*0*	*0*
Operating Gains Or Losses	(1,350)	(2,137)	477	*(1,750)*	*(1,500)*
Changes in Working Capital	0	0	0	*(696)*	*(670)*
Cash Flow from Operations	**7,071**	**7,168**	**7,883**	***10,074***	***11,353***
Cash from Investing					
Purchase of Property, Plant, Equipment	(2,134)	(2,288)	(2,415)	*(2,608)*	*(2,739)*
Other Investing Cash Flows	770	(541)	(624)	*0*	*0*
Cash Flow from Investing	**(1,364)**	**(2,829)**	**(3,039)**	***(2,608)***	***(2,739)***
Cash from Financing					
Issuance (Retirement) of Stock	(2,327)	(2,803)	(12,870)	*(1,713)*	*(1,696)*
Issuance (Retirement) of Debt	(305)	487	11,899	*0*	*0*
Dividends Paid	(2,957)	(3,128)	(3,239)	*(3,581)*	*(3,722)*
Other Financing Cash Flows	(1,096)	(415)	(317)	*0*	*0*
Cash Flow from Financing	**(6,685)**	**(5,859)**	**(4,527)**	***(5,294)***	***(5,419)***
Foreign Exchange	(1)	(42)	18	*0*	*0*
Net Change in Cash	**(979)**	**(1,562)**	**335**	***2,171***	***3,196***

Source: Company Filings, Xignite, Valuentum Projections

Note: Pro forma data in discounted cash-flow valuation may reflect significant adjustments from GAAP accounting data, including cash (not effective) tax rates and other analytical adjustments on a backward-looking and forward-looking basis. No individual data, by itself, found in this report should be used to make any investment decision.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Raytheon Tech RTX FAIRLY VALUED

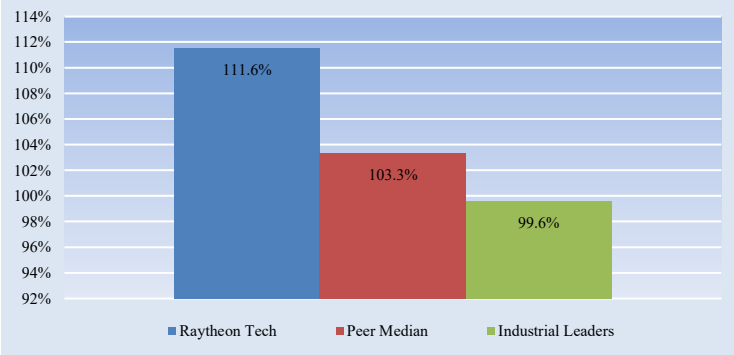
Valuentum Buying Index™ 6 Valuentum Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	Industrials	Industrial Leaders

Industrial Leaders

Industrial Leaders **FAIRLY VALUED**

We think the Industrial Leaders industry is fairly valued at this time. The industry's market cap is trading between 80% and 120% of our estimate of its fair value based on our DCF process. Although we use a firm-specific ValueRisk™ measure to determine whether a firm is undervalued or overvalued based on our DCF process, we consider an industry to be undervalued if it is trading below 80% of our estimate of its fair value and overvalued if it is trading at over 120% of our estimate of its fair value. We think these fair value ranges are appropriate given the diversification benefits of holding a basket of stocks. Although there may be individual opportunities within the Industrial Leaders industry, we don't find the industry as a whole attractive based solely on valuation.



The above bar chart reveals the price/fair value of the company, its peers, and the industry as a whole.

Shaded blue denotes that the firm has earned the highest rating for that respective category.

Company Name	Ticker	Market Cap (USD-mil)	Investment Style	DCF Valuation	Relative Valuation	ValueCreation™	ValueRisk™	ValueTrend™	Technicals	Relative Strength
3M	MMM	57,628	LARGE-CAP CORE	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	POSITIVE	BULLISH	STRONG
Amphenol Corp	APH	76,222	LARGE-CAP BLEND	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	POSITIVE	BEARISH	WEAK
Boeing	BA	111,655	LARGE-CAP VALUE	FAIRLY VALUED	UNATTRACTIVE	POOR	MEDIUM	POSITIVE	BULLISH	NEUTRAL
Canadian National	CNI	72,827	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	GOOD	MEDIUM	NEGATIVE	BEARISH	WEAK
Caterpillar	CAT	169,801	LARGE-CAP VALUE	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	POSITIVE	BEARISH	WEAK
Cavco	CVCO	3,459	MID-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	NEGATIVE	BULLISH	STRONG
Corning	GLW	33,866	LARGE-CAP CORE	FAIRLY VALUED	ATTRACTIVE	POOR	MEDIUM	NEGATIVE	VERY BEARISH	NEUTRAL
CSX Corp	CSX	67,144	LARGE-CAP CORE	FAIRLY VALUED	NEUTRAL	GOOD	LOW	POSITIVE	BEARISH	WEAK
Danaher	DHR	200,208	MEGA-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	NEGATIVE	BULLISH	WEAK
Deere	DE	110,998	LARGE-CAP CORE	FAIRLY VALUED	NEUTRAL	POOR	LOW	POSITIVE	BEARISH	WEAK
Eaton	ETN	119,644	LARGE-CAP VALUE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	POSITIVE	BEARISH	WEAK
Emerson Electric	EMR	60,097	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	POSITIVE	BEARISH	WEAK
Fastenal	FAST	38,024	LARGE-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	POSITIVE	BULLISH	WEAK
FedEx	FDX	70,431	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	NEGATIVE	BULLISH	NEUTRAL
GE Aerospace	GE	175,059	LARGE-CAP VALUE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	NEGATIVE	BEARISH	NEUTRAL
GE Vernova	GEV	56,699	LARGE-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	VERY POOR	MEDIUM	POSITIVE	BULLISH	STRONG
General Dynamics	GD	81,097	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	NEGATIVE	BULLISH	WEAK
Honeywell	HON	136,493	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	NEGATIVE	BEARISH	WEAK
Illinois Tool Works	ITW	72,812	LARGE-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	POSITIVE	VERY BEARISH	WEAK
Lockheed Martin	LMT	142,425	LARGE-CAP CORE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	NEGATIVE	NEUTRAL	STRONG
Northrop Grumman	NOC	76,885	LARGE-CAP VALUE	FAIRLY VALUED	NEUTRAL	GOOD	MEDIUM	POSITIVE	BULLISH	NEUTRAL
Parker-Hannifin	PH	75,817	LARGE-CAP CORE	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	NEGATIVE	BULLISH	STRONG
Parsons Corp	PSN	10,961	LARGE-CAP BLEND	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	POSITIVE	BULLISH	STRONG
Raytheon Tech	RTX	169,616	LARGE-CAP CORE	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	POSITIVE	BULLISH	STRONG
Republic Services	RSG	65,241	LARGE-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	POSITIVE	BULLISH	NEUTRAL
Roper Technologies	ROP	56,447	LARGE-CAP VALUE	FAIRLY VALUED	UNATTRACTIVE	POOR	MEDIUM	POSITIVE	BEARISH	WEAK
TE Connectivity	TEL	48,574	LARGE-CAP CORE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	POSITIVE	VERY BULLISH	WEAK
Union Pacific	UNP	138,064	LARGE-CAP VALUE	FAIRLY VALUED	NEUTRAL	GOOD	LOW	NEGATIVE	BEARISH	WEAK
United Parcel Service	UPS	110,462	LARGE-CAP VALUE	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	NEGATIVE	BEARISH	WEAK
Waste Management	WM	84,129	LARGE-CAP CORE	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	POSITIVE	BEARISH	WEAK

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

Valuentum's Full Page Stock Report

A DCF Valuation
Shows whether the firm is undervalued, fairly valued, or overvalued based on our DCF process and by how much.

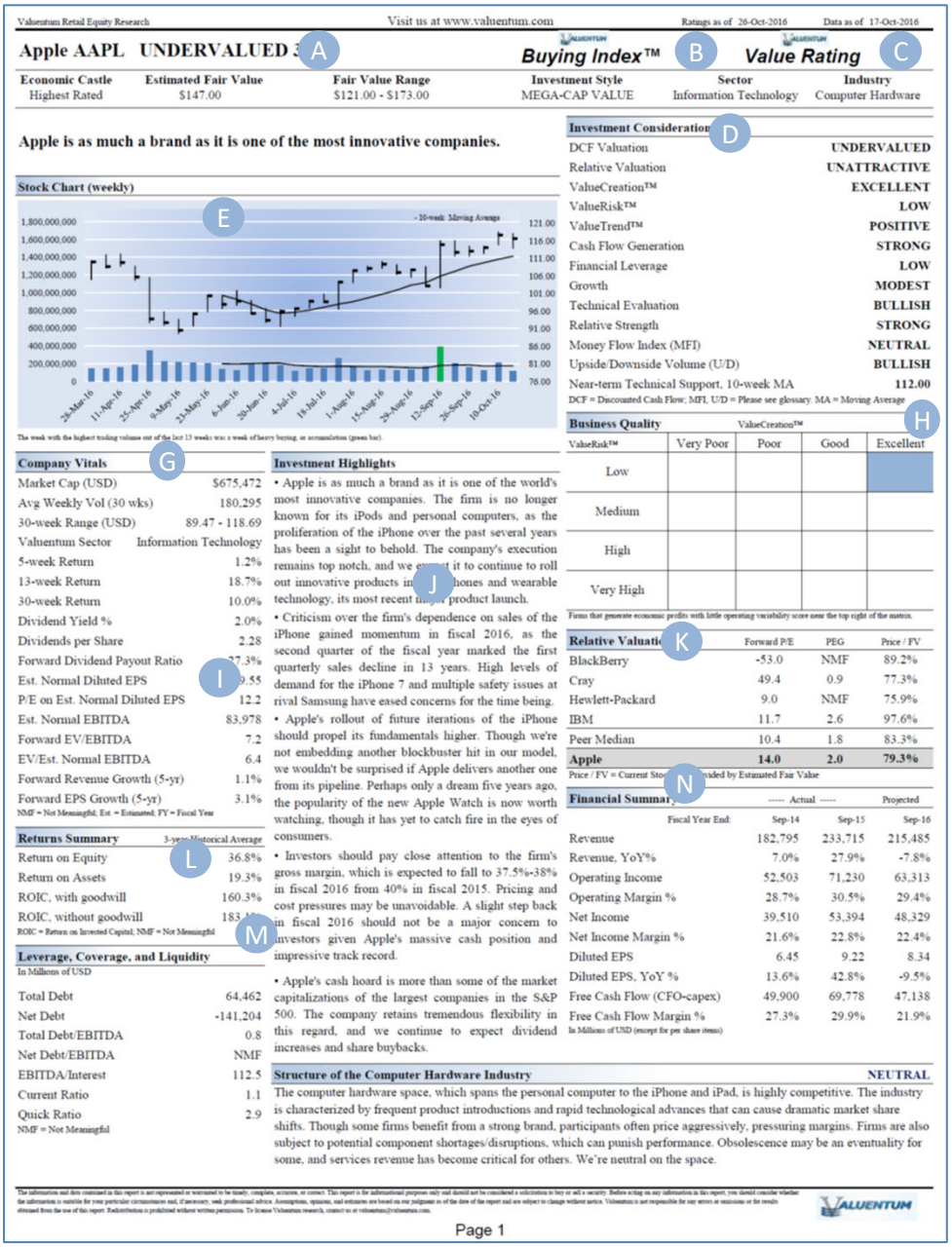
B Valuentum Buying Index (VBI)
Provides insight into the timeliness of an investment opportunity. We rank firms from 1 to 10 based on rigorous fiancial, valuation, and technical analysis. A 10 represents one of our top picks.

C Valuentum Value Rating (VVR)
Indicates whether we think a firm is undervalued, fairly valued, or overvalued on the basis of our DCF process.

UNDERVALUED
FAIRLY VALUED
OVERVALUED

D Investment Considerations
Evaluates firms on 12 different measures, from the firm's growth and cash flow generation to the stock's money flow index and upside/downside volume. We reveal technical support and resistance levels.

E 30-week Price and Volume Action
Displays the last accumulation or distribution week of the stock and historical price and volume action.



Valuentum Retail Equity Research — Visit us at www.valuentum.com — Ratings as of 26-Oct-2016 — Data as of 17-Oct-2016

Apple AAPL UNDERVALUED (A) — Buying Index™ (B) — Value Rating (C)

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$147.00	$121.00 - $173.00	MEGA-CAP VALUE	Information Technology	Computer Hardware

Apple is as much a brand as it is one of the most innovative companies.

Stock Chart (weekly) (E)

Investment Considerations (D)

DCF Valuation	UNDERVALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	112.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality (H) — ValueCreation™ / ValueRisk™

	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Company Vitals (G)

Market Cap (USD)	$675,472
Avg Weekly Vol (30 wks)	180,295
30-week Range (USD)	89.47 - 118.69
Valuentum Sector	Information Technology
5-week Return	1.2%
13-week Return	18.7%
30-week Return	10.0%
Dividend Yield %	2.0%
Dividends per Share	2.28
Forward Dividend Payout Ratio	27.3%
Est. Normal Diluted EPS	9.55
P/E on Est. Normal Diluted EPS	12.2
Est. Normal EBITDA	83,978
Forward EV/EBITDA	7.2
EV/Est. Normal EBITDA	6.4
Forward Revenue Growth (5-yr)	1.1%
Forward EPS Growth (5-yr)	3.1%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Investment Highlights (J)

• Apple is as much a brand as it is one of the world's most innovative companies. The firm is no longer known for its iPods and personal computers, as the proliferation of the iPhone over the past several years has been a sight to behold. The company's execution remains top notch, and we expect it to continue to roll out innovative products in smartphones and wearable technology, its most recent major product launch.

• Criticism over the firm's dependence on sales of the iPhone gained momentum in fiscal 2016, as the second quarter of the fiscal year marked the first quarterly sales decline in 13 years. High levels of demand for the iPhone 7 and multiple safety issues at rival Samsung have eased concerns for the time being.

• Apple's rollout of future iterations of the iPhone should propel its fundamentals higher. Though we're not embedding another blockbuster hit in our model, we wouldn't be surprised if Apple delivers another one from its pipeline. Perhaps only a dream five years ago, the popularity of the new Apple Watch is now worth watching, though it has yet to catch fire in the eyes of consumers.

• Investors should pay close attention to the firm's gross margin, which is expected to fall to 37.5%-38% in fiscal 2016 from 40% in fiscal 2015. Pricing and cost pressures may be unavoidable. A slight step back in fiscal 2016 should not be a major concern to investors given Apple's massive cash position and impressive track record.

• Apple's cash hoard is more than some of the market capitalizations of the largest companies in the S&P 500. The company retains tremendous flexibility in this regard, and we continue to expect dividend increases and share buybacks.

Relative Valuation (K)

	Forward P/E	PEG	Price / FV
BlackBerry	-53.0	NMF	89.2%
Cray	49.4	0.9	77.3%
Hewlett-Packard	9.0	NMF	75.9%
IBM	11.7	2.6	97.6%
Peer Median	10.4	1.8	83.3%
Apple	**14.0**	**2.0**	**79.3%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Returns Summary (L) — 3-year Historical Average

Return on Equity	36.8%
Return on Assets	19.3%
ROIC, with goodwill	160.3%
ROIC, without goodwill	183.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity (M)

In Millions of USD

Total Debt	64,462
Net Debt	-141,204
Total Debt/EBITDA	0.8
Net Debt/EBITDA	NMF
EBITDA/Interest	112.5
Current Ratio	1.1
Quick Ratio	2.9

NMF = Not Meaningful

Financial Summary (N)

Fiscal Year End:	Actual Sep-14	Actual Sep-15	Projected Sep-16
Revenue	182,795	233,715	215,485
Revenue, YoY%	7.0%	27.9%	-7.8%
Operating Income	52,503	71,230	63,313
Operating Margin %	28.7%	30.5%	29.4%
Net Income	39,510	53,394	48,329
Net Income Margin %	21.6%	22.8%	22.4%
Diluted EPS	6.45	9.22	8.34
Diluted EPS, YoY %	13.6%	42.8%	-9.5%
Free Cash Flow (CFO-capex)	49,900	69,778	47,138
Free Cash Flow Margin %	27.3%	29.9%	21.9%

In Millions of USD (except for per share items)

Structure of the Computer Hardware Industry — NEUTRAL

The computer hardware space, which spans the personal computer to the iPhone and iPad, is highly competitive. The industry is characterized by frequent product introductions and rapid technological advances that can cause dramatic market share shifts. Though some firms benefit from a strong brand, participants often price aggressively, pressuring margins. Firms are also subject to potential component shortages/disruptions, which can punish performance. Obsolescence may be an eventuality for some, and services revenue has become critical for others. We're neutral on the space.

Page 1

G Company Vitals
Shows sector, industry and other relevant company information.

H Business Quality
Summary of the firm's ability to create value for shareholders compared wth the underlying risk of its operations.

I Normalized EPS and EBITDA
Estimation of the firm's normalized earnings measures and the corresponding valuation mutliples.

J Investment Highlights
Our opinion of the company, including analysis of its financial and technical strengths and weaknesses.

K Relative Valuation
Comparison of the firm's PE, PEG, and Price/FV ratios versus peers.

L Returns Summary
3-year averages of the firm's key return measures, including return on invested capital, with and without goodwill.

M Leverage, Coverage, and Liquidity
A snapshot of the company's financial health.

N Financial Summary
A summary of the proforma financial statements found in the extended report.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

About Valuentum

@Valuentum, we strive to stand out from the crowd. Most investment research publishers fall into a few camps, whether it be value, growth, income, momentum, chartist or some variant of the aforementioned. We think each in its own right holds merit, but we think the combination of these approaches can be even more powerful. After all, stock price movements aren't just driven by investors of the value or growth variety, but by all market participants. Therefore, we look at stocks from a variety of investment perspectives in order to better understand and identify ideas. We want to provide relevant information.

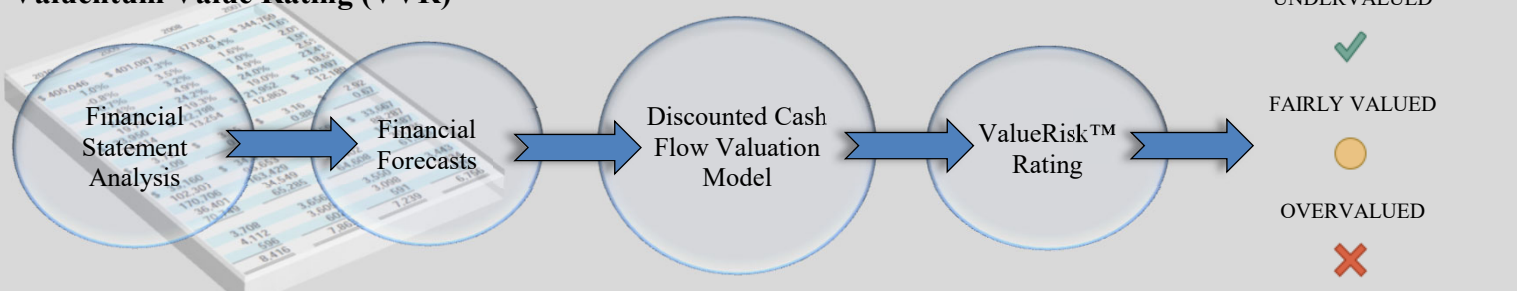
The core of our process is grounded in rigorous discounted cash flow analysis and incorporates the concept of a margin of safety. We offer a fair value estimate for each company and provide a relative valuation assessment in the context of a company's industry and closest peers. A cross section of our ValueCreation™ and ValueRisk™ ratings provides a financial assessment of a company's business quality, while our ValueTrend™ rating offers insight into the trajectory of a firm's economic profit creation. The Economic Castle rating measures the magnitude of future economic value generation, and the Dividend Cushion ratio assesses the financial capacity of a company to keep raising its dividend.

Our analysis doesn't stop there. We also offer a technical evaluation of the stock as well as other momentum indicators. We not only want to reveal to readers which firms may be undervalued, in our view, but we also want to provide readers with information to help them assess entry and exit points. Most research publishers focus on arriving at a target price or fair value estimate, but may fall short of providing a technical assessment to bolster buy and sell disciplines. We strive to go the distance and provide readers with answers--not half the story.

An explanation of our approach would not be complete if we didn't describe our ideal stock idea. We're looking for companies that are undervalued--both on a DCF basis and versus peers--have strong growth potential, have a solid track record of creating economic profits for shareholders with reasonable risk, are strong cash flow generators, have manageable financial leverage, and are currently showing bullish technical and momentum indicators. For dividend growth ideas, we look for companies that have both the capacity and willingness to keep raising the dividend.

Can such stock ideas exist? Subscribe to Valuentum to receive our best investment ideas and analysis on hundreds of stocks, dividends, ETFs and more.

Valuentum Value Rating (VVR)



Historical firm-specific financial data generates our ValueCreation™, ValueRisk™, and ValueTrend™ ratings. The data provides the basis for our financial forecasts.

Full annual forecasts of income statement, balance sheet, and cash flow statement items. Firm-specific cost of equity, cost of debt, weighted average cost of capital, and long-term growth and profitability measures estimated.

A complete three-stage free cash flow to the firm valuation model generates an estimate of the firm's equity value per share based on estimated future free cash flows.

The volatility of key valuation drivers are estimated and a margin of safety is determined.

- Revenue Volatility
- Margin Volatility
- Earnings Volatility
- Cash Flow Volatility

The firm's stock price is compared to the suggested margin of safety. If a firm's stock price falls below the lower bound of our estimated fair value range, it receives Valuentum's highest Value Rating.

The information and data contained in this report is not represented or warranted to be timely, complete, accurate, or correct. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this report, you should consider whether the information is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at valuentum@valuentum.com.

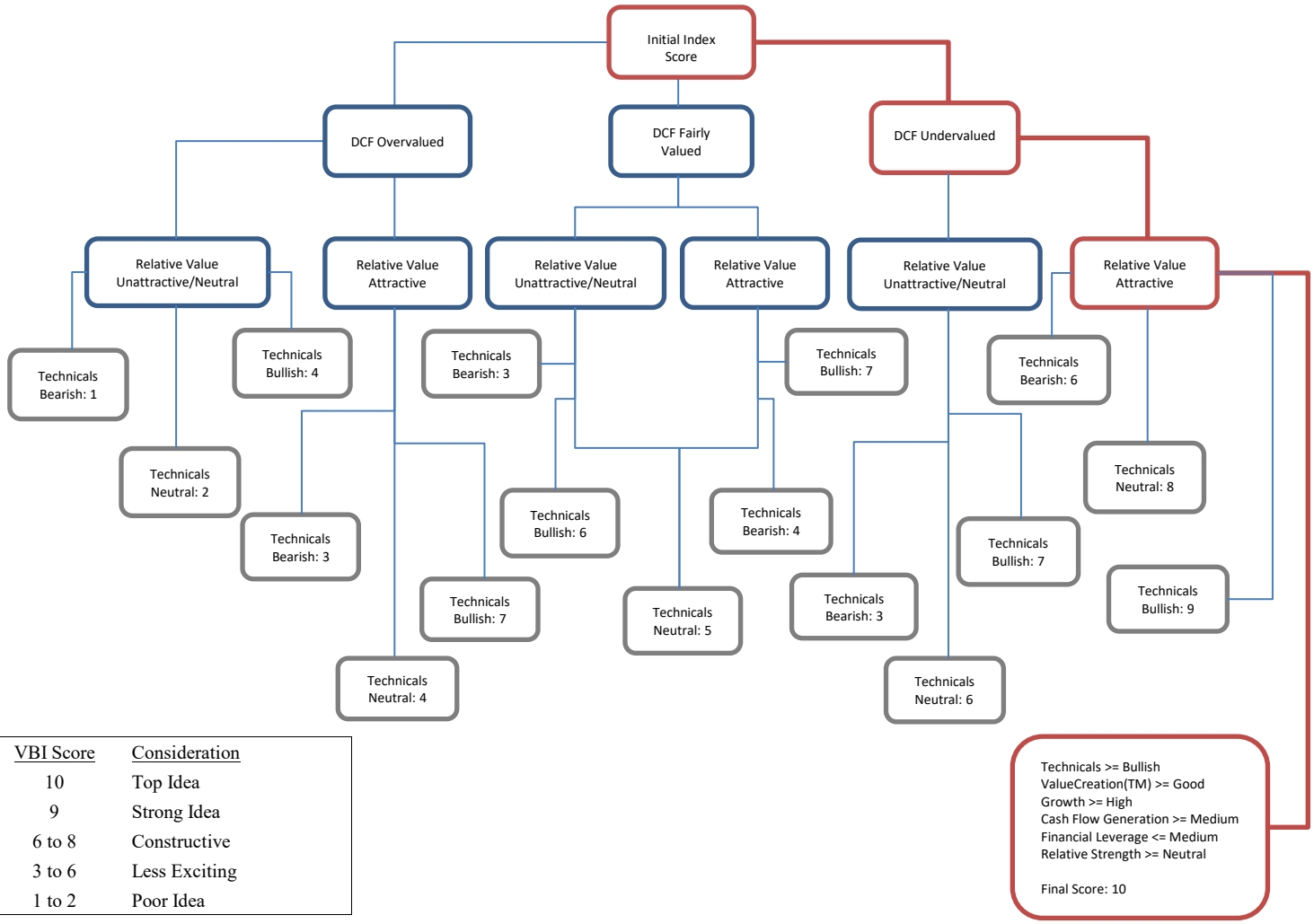
Methodology for Picking Stocks - Valuentum Buying Index™ (VBI)

@ Valuentum, we like to look at companies from a number of different perspectives. The Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a stock's technicals to derive a rating between 1 and 10 for each company. The VBI places considerable emphasis on a company's discounted cash-flow (DCF) valuation, its relative valuation versus peers (both forward PE and PEG ratios), and its technicals in order to help readers assess entry and exit points on the most interesting ideas.

Let's follow the red line on the flow chart below to see how a company can score a 10, the best mark on the index. First, the company would need to be 'undervalued' on a DCF basis and 'attractive' on a relative value basis. The stock would also have to be exhibiting 'bullish' technicals. The firm would need a ValueCreation™ rating of 'good' or 'excellent', exhibit 'high' or 'aggressive' growth prospects, and generate at least a 'medium' or 'neutral' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company. Stocks that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks, in our opinion, garnering a rating of 1. Most of our coverage universe registers ratings between 3 and 7, but at any given time there could be large number of companies garnering either very high or very low scores, especially at market lows or tops, respectively.

The Best Ideas Newsletter portfolio puts the VBI into practice.



VBI Score	Consideration
10	Top Idea
9	Strong Idea
6 to 8	Constructive
3 to 6	Less Exciting
1 to 2	Poor Idea

The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at Valuentum@Valuentum.com.

Glossary

Estimated Fair Value. This measure is our opinion of the fair equity value per share of the company. If our forecasts prove accurate, which may not always be the case, we may expect a firm's stock price to converge to this value within the next 3 years.

Fair Value Range. The fair value range represents an upper bound and lower bound, between which we would consider the firm to be fairly valued. The range considers our estimate of the firm's fair value and the margin of safety suggested by the volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow (the determinants behind our ValueRisk™ rating).

DCF Valuation. We opine on the firm's valuation based on our DCF process. Firms that are trading with an appropriate discount to our fair value estimate receive an UNDERVALUED rating. Firms that are trading within our fair value range receive a FAIRLY VALUED rating, while firms that are trading above the upper bound of our fair value range receive an OVERVALUED rating.

Relative Value. We compare the firm's forward price-to earnings (PE) ratio and its price/earnings-to-growth (PEG) ratio to that of its peers. If both measures fall below the peer median, the firm receives an ATTRACTIVE rating. If both are above the peer median, the firm receives an UNATTRACTIVE rating. Any other combination results in a NEUTRAL rating.

ValueCreation™. This is a proprietary Valuentum measure. ValueCreation™ indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

ValueRisk™. This is a proprietary Valuentum measure. ValueRisk™ indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

ValueTrend™. This is a proprietary Valuentum measure. ValueTrend™ indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.

Cash Flow Generation. Firms' cash flow generation capacity are measured along the scale of STRONG, MEDIUM, and WEAK. A firm with a 3-year historical free cash flow margin (free cash flow divided by sales) greater than 5% receives a STRONG rating, while firms earning less than 1% of sales as free cash flow receive a WEAK rating.

Financial Leverage. Based on the firm's normalized debt-to-EBITDA metric, we rank firms on the following scale: LOW, MEDIUM, and HIGH. Companies with a normalized debt-to-EBITDA ratio below 1.5 receive a LOW score, while those with a measure above 3 receive a HIGH score.

Upside/Downside Volume. Heavy volume on up days and lower volume on down days suggests that institutions are heavily participating in a stock's upward advance. We use the trailing 14-week average of upside and downside volume to calculate an informative ratio. We rank each firm's U/D volume ratio along the following scale: BULLISH, IMPROVING, DETERIORATING, and BEARISH.

Investment Style. Valuentum uses its own proprietary stock-classification system. Nano-cap: Less than $50 million; Micro-cap: Between $50 million and $200 million; Small-cap: Between $200 million and $2 billion; Mid-cap: Between $2 billion and $10 billion; Large-cap: Between $10 billion and $200 billion; Mega-cap: Over $200 billion. Blend: Firm's that we think are undervalued and exhibit high growth prospects (growth in excess of three times the rate of assumed inflation). Value: Firm's that we believe are undervalued, but do not exhibit high growth prospects. Growth: Firms that are not undervalued, in our opinion, but exhibit high growth prospects. Core: Firms that are neither undervalued nor exhibit high growth prospects.

Company Vitals. In this section, we list key financial information and the sector and industry that Valuentum assigns to the stock. The P/E-Growth (5-yr), or PEG ratio, divides the current share price by last year's earnings (EPS) and then divides that quotient by our estimate of the firm's 5-year EPS growth rate. The estimated normalized diluted EPS and estimated normalized EBITDA represent the five-year forward average of these measures used in our discounted cash flow model. The P/E on estimated normalized EPS divides the current share price by estimated normalized diluted EPS. The EV/estimated normalized EBITDA considers the current enterprise value of the company and divides it by estimated normalized EBITDA. EV is defined as the firm's market capitalization plus total debt, minority interest, preferred stock less cash and cash equivalents.

Business Quality Matrix. We compare the firm's ValueCreation™ and ValueRisk™ ratings. The box is an easy way for investors to quickly assess the business quality of a company. Firms that generate economic profits with little operating variability score near the top right of the matrix.

Timeliness Matrix. We compare the company's recent stock performance relative to the market benchmark with our assessment of its valuation. Firms that are experiencing near-term stock price outperformance and are undervalued by our estimate may represent timely buys.

Range of Potential Outcomes. The firm's margin of safety is shown in the graphic of a normal distribution. We consider a firm to be undervalued if its stock price falls along the green line and overvalued if the stock price falls along the red line. We consider the firm to be fairly valued if its stock price falls along the yellow line.

Return on Invested Capital. At Valuentum, we place considerable emphasis on return on invested capital (both with and without goodwill). The measure focuses on the return (earnings) the company is generating on its operating assets and is superior to return on equity and return on assets, which can be skewed by a firm's leverage or excess cash balance, respectively.

Technical Evaluation. We evaluate a firm's near-term and medium-term moving averages and money flow index (MFI) to assign each firm a rating along the following scale: VERY BULLISH, BULLISH, NEUTRAL, BEARISH, and VERY BEARISH.

Stock Price Relative Strength. We assess the perfomance of the company's stock during the past quarter, 13 weeks, relative to an ETF that mirrors the aggregate performance of constituents of the stock market. Firms are measured along the scale of STRONG, NEUTRAL, and WEAK. Companies that have outperformed the market index by more than 2.5% during this 13-week period receive a STRONG rating, while firms that trailed the market index by more than 2.5% during this 13-week period receive a WEAK rating.

Money Flow Index (MFI). The MFI is a technical indicator that measures buying and selling pressure based on both price and volume. Traders typically use this measure to identify potential reversals with overbought and oversold levels. We use a 14-week measure to rank firms along the following scale: EXTREMELY OVERBOUGHT (>90), OVERBOUGHT (80-90), NEUTRAL (20-80), OVERSOLD (10-20), EXTREMELY OVERSOLD (0-10).

The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell a security. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report. Redistribution is prohibited without written permission. To license Valuentum research, contact us at Valuentum@Valuentum.com.

Disclosures, Disclaimers & Additional Sources

To send us feedback or if you have any questions, please contact us at valuentum@valuentum.com. We're always looking for ways to better serve your investment needs and improve our research.

RTX Rating History	Price	Fair Value	VBI
16-Sep-24	$119.36	$107.00	6
28-Jun-24	$100.39	$97.00	4
2-Apr-24	$98.53	$96.00	7
19-Jan-24	$85.09	$87.00	7
29-Nov-23	$80.99	$94.00	7
10-Jul-23	$96.17	$97.00	3
23-Dec-22	$99.30	$100.00	7
5-Aug-22	$93.03	$91.00	4
8-Oct-21	$90.62	$89.00	6
23-Nov-20	$72.64	$76.00	6
17-Apr-20	$66.07	$88.00	3
25-Oct-19	$213.68	$199.00	6
26-Jul-19	$190.80	$188.00	6
29-Apr-19	$175.43	$181.00	4

Copyright (c) 2017 by Valuentum, Inc. All rights reserved.
No part of this publication may be reproduced in any form or by any means.
The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell any security. No warranty or guarantee may be created or extended by sales or promotional materials, whether by email or in any other format. The securities or strategies mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any advice, especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs. This report is not intended as a recommendation of the security highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.
The sources of the data used in this report are believed by Valuentum to be reliable, but the data's accuracy, completeness or interpretation cannot be guaranteed. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision.
Valuentum is not a money manager, is not a registered investment advisor, and does not offer brokerage or investment banking services. Valuentum has not received any compensation from the company or companies highlighted in this report. Valuentum, its employees, independent contractors and affiliates may have long, short or derivative positions in the securities mentioned herein. Information and data in Valuentum's valuation models and analysis may not capture all subjective, qualitative influences such as changes in management, business and political trends, or legal and regulatory developments. Redistribution is prohibited without written permission. Readers should be aware that information in this work may have changed between when this work was written or created and when it is read. There is risk of substantial loss associated with investing in financial instruments.
Valuentum's company-specific forecasts used in its discounted cash flow model are rules-based. These rules reflect the experience and opinions of Valuentum's analyst team. Historical data used in our valuation model is provided by Xignite and from other publicly available sources including annual and quarterly regulatory filings. Stock price and volume data is provided by Xignite. No warranty is made regarding the accuracy of any data or any opinions. Valuentum's valuation model is based on sound academic principles, and other forecasts in the model such as inflation and the equity risk premium are based on long-term averages. The Valuentum proprietary automated text-generation system creates text that will vary by company and may often change for the same company upon subsequent updates.
Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.
Past simulated performance, whether backtested or walk-forward or other, is not a guarantee of future results. For general information about Valuentum's products and services, please contact us at valuentum@valuentum.com or visit our website at www.valuentum.com.

The High Yield Dividend Newsletter portfolio, the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio are not real money portfolios. Any performance, including that in the Nelson Exclusive publication, is hypothetical and does not represent actual trading. Past performance is not a guarantee of future results.

Valuentum is an investment research publishing company.

Valuentum has not owned and does not own any shares of stocks mentioned on its website or in this report. President of Investment Research Brian Nelson does not own any shares of stocks mentioned on Valuentum's website or in this report. Majority share owner of Valuentum, Elizabeth Nelson, currently has exposure to HON in her retirement account.

If an independent contributor or employee mentions a stock he or she owns, we disclose it in the article/report that mentions the security. Please view individual articles on Valuentum's website for additional disclosures. Contact us to learn more about Valuentum's editorial policies.