Hofstra SMIF Research Report

Industrials
Aerospace & Defense

Raytheon Co.

Ticker: RTN
Price: $189.07

Recommendation: Buy
Price Target: $223.71

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October 24, 2017

	Q1	Q2	Q3	Q4	Year	P/E Ratio
2014A	$1.87	$1.56	$1.65	$1.83	$6.97	14.58x
2015A	1.78	1.65	1.47	1.85	6.75	17.77
2016A	1.43	2.38	1.79	1.82	7.44	18.89
2017E	1.74	1.89	1.91E	2.21E	7.75E	25.16E

Recent Events

- **Growing backlog:** Over the last 2 months, Raytheon has been awarded numerous contracts from huge national clients, such as the U.S. Navy, the U.S. Army, the U.S. Air Force, U.S. Marine Corps, the Missile Defense Agency, and the Pentagon. In addition to the aforementioned clients, Raytheon has had massive orders from international clients such as Japan, Australia and Saudi Arabia, which are all in the process of being approved by the State Department.
- **The Trump Administration's Agenda:** President Trump and his administration have been outspoken about increasing military and defense spending. He has proposed a 9-10% increase in military spending, which will have a positive effect on Raytheon.
- **International Instability:** As terrorism threats, concerns over North Korea, and rising geopolitical instability are increasing, so is the international demand for upgraded missile and defense systems. This opportunity creates an additional increased source of revenue for Raytheon.
- **Expanding Lines of Business:** Although Raytheon has a prominent presence among global defense companies, they are beginning to expand operations into the cybersecurity industry, through their sub company Forcepoint.

Market Profile	
52 Week Price Range	$132.89 - $189.64
Average Daily Volume	292,400,000.00
Beta	0.829
Dividend Yield (Estimated)	1.70%
Shares Outstanding	290,200,000.00
Market Capitalization	$54,534,900,000.00
Institutional Holdings	79.16%
Insider Holdings	0.19%
Book Value per Share (12/31/16)	$142.00
Debt to Total Capital	33.66%
Return on Equity	21.90%

Source: Bloomberg

Investment Summary

Raytheon's ability to continuously retain and win defense contracts, combined with a Trump administration that is keen on increasing funding to the United States' military and defense budgets, is a combination that will allow Raytheon to both grow their company, domestically and internationally, and at the same time, increase their revenues and profits. This will add value to the company and will result in a higher valuation of the firm over the next couple years.

Accumulation of Defense Contracts Will Lead to an Increase in Revenues

Over the past two months, Raytheon has been awarded copious defense contracts, from both the United States' military and international clients.

At the conclusion of August, Raytheon was awarded a $614.5 million contract by the Missile Defense Agency for the production, engineering, monitoring, and support for the SM-3 (Standard Missile) Block IIA missiles. The SM-3 is a ship based missile system which is used by the U.S. Navy to intercept short to intermediate range ballistic missiles.[1] These missiles are part of the Aegis Ballistic Missile Defense System. The SM-3 IIA is the next generation Standard Missile, and will be deployable both on land and at sea. The upgraded missile system integrates larger rocket motors that will enable the interceptor to defend broader areas from ballistic missile threats.[1]

Raytheon was awarded two defense contracts from the U.S. Navy in the month of September, for $119 million and $45.5 million, respectively. The first contract is for the integration of a new multi-mode seeker into the Tomahawk Block IV Cruise Missile.[2] This new enhancement will enable the missile to engage moving maritime targets. The second contract is for Raytheon's Relocatable Over-the-Horizon Radar system (ROTHR). This radar has been in operation with the U.S. Navy since 1986, and the radar was originally designed and built by Raytheon.[2] The ROTHR was constructed to detect enemy aircraft at any altitude and any boats or submarines in the water.

In the final week of September, the Pentagon awarded Raytheon's Missile Systems segment with a $450 million contract for the design, development and production for upgrades to the Small Diameter Bomb (SDB) II.[2] The weapon will have the capability to engage fixed or moving targets regardless of the weather, and will be able to effectively target hostiles through battlefield debris. The SDB II is being integrated for use on the F-35 and F/A-18E/F fighter jets by the U.S. Air Force and Navy.[2]

The start to October was a busy one for Raytheon, as they received 2 orders from international countries, Australia and Japan[3], that were both approved by the State Department. The contract from Australia is valued at $815 million, and is for the sale of 3900 GBU-53/B SDB II and related equipment and services. In addition to the features of the SDB mentioned in the previous paragraph, the bombs also feature a warhead that has both blast and fragmentation effects, which makes it highly effective against enemy infantry units, armor, buildings, and small patrol boats. The contract from Japan is valued at around $113 million and is for 56 advanced medium range air-to-air missiles along with missile support equipment.[3]

In addition to receiving contracts for weapons from other countries, Raytheon was awarded a $300.1 million contract on October 3rd to provide Tube-launched Optically-tracked Wireless guided missiles (TOW) for the U.S. Army and U.S. Marine Corps.[3] TOW missiles are the premier long range, heavy assault, anti-armor weapons system used throughout the world. The TOW missile system is the weapon system of choice of the U.S. Army Stryker, Bradley Fighting Vehicle, and the ITAS High Mobility Multipurpose Wheeled Vehicle and Light Armored Vehicle Anti-Tank platforms due to the weapon system's long-range precision accuracy and effectiveness as an anti-tank weapon.[3] Multiple update programs on the TOW missiles will extend their life cycle well beyond 2050.

The latest development that directly affects Raytheon occurred on October 6, and had to do with the State Department approving a $15 billion sale of THAAD missile defense systems to Saudi Arabia.[3] Raytheon is one of two principle contractors for the THAAD missile systems, along with Lockheed Martin.[3] Congress has 30 days to review the sale, but will most likely see little opposition due to the fact that the sale is part of an arms package deal that President Trump promised in his visit to the Saudis. The Terminal High Altitude Area Defense (THAAD) system is an anti-ballistic missile defense system designed to shoot down ballistic missiles that are in their terminal phase.[3] This sale will support the national security and foreign policy objectives of the U.S. by drastically improving the security of an allied country.

Trump and the U.S. Military

From the start of President Donald Trump's campaign, one of the things that he promised was a rebuilding of the United States' military. It seems as if that is a promise he intends on keeping, which is nothing but good news for the Aerospace and Defense industry. In August, President Trump was quoted as saying, "We're going to be increasing our budget by many billions of dollars because of North Korea".[3]

On October 4, congressional defense committees approved shifting more than $400 million from other defense accounts into missile defense programs. The shift in funds would help to provide more ground based interceptors and upgrades to U.S. Navy anti-missile vessels. Defense Secretary General Jim Mattis disclosed the approval Tuesday during a Senate hearing on Afghanistan. Mattis was stated as saying that he wants approval to "reprogram" the unspent funds for FY 2017, which totaled $440 million from different accounts, such as Army wartime maintenance and operations.

This shift of funds is reflective of the increasing determination of the Pentagon and Congress to strengthen missile defense as North Korea has declared to perfect nuclear missiles that would be able to hit the U.S. homeland, as well as many of our allied countries in Asia.

Figure 1: Raytheon Co. and iShares US Aerospace & Defense ETF post-Election

Reference the white circle, which highlights both RTN and ITA's reaction after Trump won the 2016 U.S. Election

Source: Bloomberg

Expanding Worldwide Business

Although the U.S. Government is responsible for almost 65% of Raytheon's business and backlog of contracts, the company has been increasing their worldwide business, and management has placed an emphasis on becoming a more global name in defense contracting. Currently, international customers encompass around 43% of Raytheon's backlog, compared to only 28% in 2012, which is the highest amount of backlog credited to international clients when compared with their competitors' backlogs.[8] Usually, international contracts are higher-margin, which in return offers the potential for high profitability. Foreign orders have increased, and are expected to continue to increase due to the unstable worldwide conditions.

Valuation

During the valuation of Raytheon Co., both a Free Cash Flow to Equity Model and a Two-Stage Dividend Discount Model were used. Both models showed a potential large upside in the stock, offering at least an 18% possible gain from the current trading price of $189.07 (as of October 23, 2017). In the calculations, the yield on the 10-Year U.S. Treasury Bond was used for the risk-free rate. The lower price target from both

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

valuation models will be used as the target price for Raytheon. The results from the valuation solidify the "buy" recommendation on the stock.

Free Cash Flow to Equity Valuation

In using the FCFE valuation model, the valuation has produced a projected price target of $275.85 per share, representing a little over a 45% upside from the current trading price at market close 10/23/2017. The valuation process began with taking the average Free Cash Flow of Raytheon for the last five years, and calculating the percent year over year increase or decrease for those five years. After computing this, we took the average percentage of the five years and used that number (6.44%) as the average growth rate in computing the projected values for all of the elements of the financial model. This growth rate could be below the actual growth rate over the period from the end of this year until 2019 due to the increased number of contracts that Raytheon has been awarded, which will increase their net income and cash flows, but the number will be used to represent a safer growth estimate. Next, the Cash Flow Statement for FY 2016 was used to take the totals for net income and other components of the model and dividing that by the number of outstanding shares to arrive at per share results. The growth rate of 6.44% was then applied to these results, and started generating predictions for the components of the model. The rate of 6.44% was used for the estimation of the 2017 and 2018-year end projections, but for 2019 we used a late stage growth rate of 5%. After applying these growth rates to per share estimates, the final prediction for the FCFE per share estimates were reached.

From here, we achieved a terminal value after the three-year period of $312.14 by taking the 2019 FCFE estimate and dividing it by the required return on equity minus the late stage growth rate. A discount rate of 7.77% was used because that was the yielded result from the CAPM formula when using the stock's five-year monthly average beta (.829), the risk-free rate (2.38%), and the historical return of the S&P (8.88%). The FCFE estimate for FY 2018 was added to this terminal value to arrive at a value of $320.37 for total cash flows to equity over the period of 2017 to 2019. Lastly, the value $320.37 was discounted back to present value by taking the total cash flows to equity and dividing it by one plus the discount rate and raising the denominator to 2. From calculating this, the discounted value came out to $275.85.

Two-Stage Dividend Discount Model

In using a Two-Stage Dividend Discount Model, the valuation has engendered a projected price target of $223.71 per share, representing over an 18% upside from the closing price of $189.07 on October 23, 2017. The estimate process began with first looking at the EPS, Dividends, and ROE of Raytheon for the past five years. After gathering this data, the five-year average of each component was computed. By using taking the average dividend and dividing that by the average EPS, we arrive at the average payout ratio of the firm. We then take this number and subtract from one to compute the average plowback ratio of Raytheon.

Taking the average plowback ratio, we can multiply this by the average ROE to arrive at the average growth over the last five years (13.69%). Taking this growth rate, the projected dividend values for 2018 and 2019 were computed. During the concluding calculations, a late stage growth rate of 6% was used after assessing the average compounded annual growth rate over the last 5 years of all of the companies in the Aerospace & Defense industry.

After solving for the terminal value and discounting this result to present value, the end result was a target price of $223.71 with a potential upside of 18.32%.

Risks to Raytheon's Target Price

There are a couple potential risks that could lower the price target of Raytheon. If President Trump's proposed increase to military spending gets halted or doesn't end up allocating the full initial amount of funds to the military. This would negatively impact the U.S. Government's ability to award Raytheon defense contracts, and due to the fact that 65% of Raytheon's backlog is sourced directly from the U.S. Government, this would could harm to Raytheon's revenue and profit, negatively altering the valuation estimates.

In addition, the Federal Reserve has hinted at a possible rate hike by the end of this year, which in the long term would directly raise the required rate of return on Raytheon, and therefore, keeping all else equal, would lower the price target. John Williams, the CEO and President of the San Francisco Federal Reserve Bank, was quoted as saying that he "expects the U.S. central bank to raise interest rates later this year, three times next year, and a little bit in 2019".[4] This statement was made barring any extreme or unforeseen market conditions, but if this expectation of Williams is executed by the Fed, not only Raytheon, but all equities will be negatively affected.

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

Business Description

Raytheon Co. is the fifth largest military contractor in the world, and is based out of Waltham, Massachusetts. Raytheon employs over 63,000 employees worldwide, and their current CEO is Thomas Kennedy. The company operates through five segments: Integrated Defense Systems (IDS), Intelligence, Information, and Services (IIS), Missile Systems (MS), Space and Airborne Systems (SAS), and Forcepoint, which is Raytheon's cybersecurity division.

Integrated Defense Systems (IDS)

The IDS segment of Raytheon designs, integrates, and maintains complex air, land, and naval technologies for both offensive and defensive operations for military and civil applications. Some of the products produced by this segment include ballistic missile early-warning radar systems, air-defense missile systems, and ship and helicopter based anti-submarine sonar.[5] IDS serves the U.S. Armed Forces, the Department of Homeland Security, and the U.S. Missile Defense Agency.

Intelligence, Information, and Services (IIS)

The IIS section of Raytheon specializes in signals, imaging, and geospatial intelligence. IIS offers air and space command and control systems, weather data management, and high-speed computing, and provides operational, logistical, and technical support services for the U.S. Department of Defense, along with various other agencies of the federal government.[5]

Missile Systems (MS)

The MS sector of Raytheon is a global producer of offensive and defensive missile systems for land, sea, and air launched combat missiles. The Missile Systems' primary product line is the Air Warfare Systems (AWS), which includes weapons such as the Advanced Medium-Range Air-to-Air Missile (AMRAAM), the Tomahawk Cruise Missile, and the High-Speed Anti-Radiation Missile (HARM).[1] The MS segment provides weapons to both the U.S. Armed Forces and U.S. allied nations.[5]

Space and Airborne Systems (SAS)

The SAS division of Raytheon focuses on the design of sensor systems that offer defense and protection during in-air operations. Some of the products that this segment produces include the Airborne Electronically Scanned Array (AESA) radar, space satellite sensors for civil and defense applications, and the ALR digital radar warning receiver.[5]

Forcepoint

Forcepoint LLC is a unit of Raytheon that deals with cybersecurity and the production of software products to aid in protecting governments from hacking attacks. Forcepoint offers a wide range of cloud based products that analyze systems and scan for attacks, detect malware and other threats, and block and shutdown attacks in the case that one occurs.[5] This division's main product is the TRITON, which combines email, web, and filtering technologies into one security architecture.[5]

With technology growing at an exponential rate, it is without doubt that the amount of cyber-attacks and hacking issues will continue to grow as well. Just in the past year, Forcepoint's revenue increased by over 72%, and in the last three years, Forcepoint's revenue has seen an increase of 86%.[3]

In 2014, James Clapper, The Director of National Intelligence, was quoted as saying that he "expects cyber-attacks to be the top security threat to the U.S." and that "it is expected that cyber-attacks will grow with new technologies"[2].

In fiscal 2016, former U.S. President Barack Obama proposed $14 for cybersecurity efforts, and in fiscal 2017, further increase his proposal to $19 billion[2]. Following these proposals from Obama, President Trump, for his 2018 fiscal budget, proposed a $1.5 billion increase to the Department of Homeland Security's cybersecurity funding.[6]

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

Figure 2: Raytheon Co. Revenue Breakdown by Segment of Business
Data as of 2016, in millions

Revenue Breakdown by Segment	
Integrated Defense Systems (IDS)	$5,476.00
	21.47%
Intelligence, Information, and Services (IIS)	$6,194.00
	24.28%
Missile Systems (MS)	$7,071.00
	27.72%
Space and Airborne Systems (SAS)	$6,199.00
	24.30%
Forcepoint	$566.00
	2.23%

Source: Statista

Additional Highlights

Insider Transactions

During 3Q17, insiders of Raytheon purchased around $200,000 worth of stock, which was the highest level of insider buying over the last 5 years. This large amount of insider transactions in Raytheon stock is an indication that employees are confident in the company's outlook, especially when one compares the 3Q17 purchase total with the average quarterly purchase total for Raytheon stock, which is only around $10,000.[4]

Raytheon Selected as Provider of WorldView Legion Satellite Imaging

On October 10th, Raytheon was selected by DigitalGlobe to be the next-generation WorldView Legion satellite imaging constellation payload provider. Under this contract with DigitalGlobe, Raytheon will distribute detectors, telescopes, and electronics to Space Systems Loral, the WorldView Legion space vehicle integrator.

Raytheon will have the ability to double DigitalGlobe's ability to capture multispectral and 30cm imagery, while tripling to quadrupling the company's capacity to image high-demand areas.[7] WorldView Legion is anticipated to initiate launching in 2020.

The founder of DigitalGlobe, Dr. Walter Scott, was quoted as saying, "We have exceptional confidence in the quality, performance, and value of Raytheon's instrument design, which will give our customers even greater insights into global events of significance and allow them to make critical decisions with confidence for many years to come".[7]

Management & Governance

Thomas Kennedy became Raytheon's CEO at the end of March in 2014. Kennedy has been with Raytheon for more than 30 years, and has led several of Raytheon's divisions over that time, and due to his history, there is no expectation that he will make any major changes to the firm's strategy or objectives.

Todd Ernst Appointed as Vice President of Corporate Development

The former Vice President of Corporate Development, Michael Cody, has retired after 8 years in the position. Ernst has an impressive history with Raytheon since joining the firm back in 2009.[3] He was extremely influential in shaping the company's cyber and technology portfolios by leading 20 acquisitions, including Raytheon's $1.57 billion agreement with Vista Equity Partners to establish a new company that combined Websense (a Vista company) with Raytheon Cyber Products to become present day Forcepoint.[3]

Chief Financial Officer and Vice President of Raytheon, Toby O'Brian, was quoted as saying, "Todd's expertise in finance, banking, and strategy is ideally suited to his expanded role as we continue to position the company for global growth".[3]

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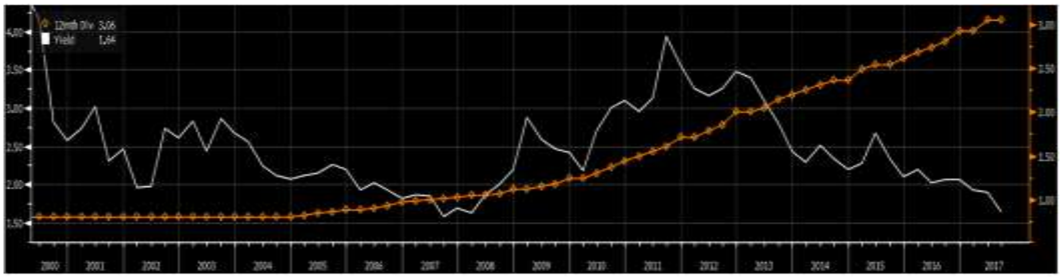
Shareholder Value
Since 2007, Raytheon has reduced its outstanding share count by nearly 30%[8], and has raised their dividend for thirteen years in a row. Through both Raytheon's commitments to repurchasing shares and past predictable increases in their dividend, the company will provide ample value to its shareholders in the future.

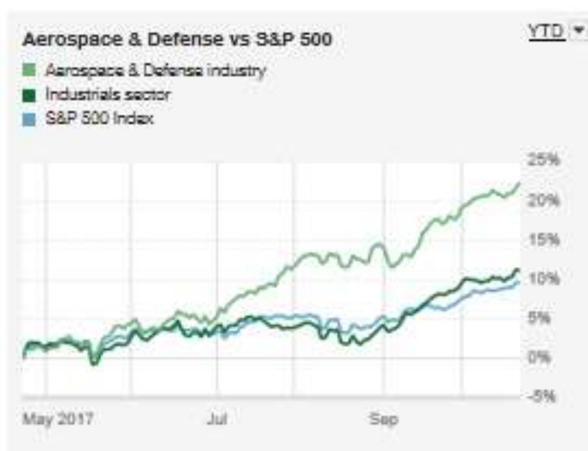
Figure 3: Raytheon Co. Dividend Growth Since 2000
Reference the orange studded line for cash dividend per share since the year 2000



Source: Bloomberg

Industry Overview and Competitive Positioning
Raytheon operates in the Aerospace and Defense industry within the Industrials sector. The Aerospace and Defense industry is comprised of 37 companies with a market capitalization over $1 billion. The Aerospace and Defense industry has severely outperformed both the Industrials sector and the S&P index by around 13% (as of October 23, 2017). The industry's outperformance illustrates how current geopolitical and global events are engendering a demand for more defense spending around the world.

Figure 4: Aerospace & Defense Industry Return vs. Industrials Sector and the S&P 500
Graph depicts YTD returns



Source: TD Ameritrade Research & Ideas

Industry Analysis
The Aerospace and Defense industry is composed of five major companies: Raytheon Co., Lockheed Martin Corp., Boeing Co., United Technologies Corp., and General Dynamics Corp. These five companies make up $464 billion of the $679 billion market capitalization of the industry, representing around 70% of the entire industry.

[1]Zacks Investment Research
[2]Yahoo Finance
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[4]Thomson Reuters
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The barriers to entry of the Aerospace and Defense industry are high. Smaller firms struggle to compete with larger companies due to their inability to keep up with the large costs of researching and developing weaponry and vehicles used by our armed forces and militaries around the world. Smaller firms in this industry usually end up being acquired by larger companies. In addition, brand identification and customer loyalty also negatively impact smaller firms that are trying to enter the Aerospace and Defense industry. The United States Government is going to prefer to contract a big name like Raytheon or Lockheed Martin over a smaller firm, because they have conducted business with them in prior contracts and they are familiar with the quality of their products. Countries and/or governments don't want to take the chance of doing business with companies that they are unfamiliar with.

There is a moderate threat of substitutes to companies operating in the Aerospace and Defense industry. Although not many firms around the world have the necessary capital and infrastructure to build and develop heavy weaponry and military supplies and materials, the companies who do have this ability generally tend to produce similar defense products. This increases rivalry and competition among those select companies, as they must bid against each other when they are fighting to win contracts. Raytheon has been able to mitigate this risk due to the fact that they are the sole producer and manufacturer of the Tomahawk missile, which is one of the most popular missile systems in the world.

Rivalry is very intense among the top defense contractors due to the nature of how they must bid against each other for desired contracts. Being outbid for a contract could cost the losing company hundreds of millions of dollars, and this results in nasty disputes or protests by the losing firms on occasion. Raytheon was recently awarded a $755 million cybersecurity contract for the Department of Homeland Security, with their main job being to provide support to the National Cybersecurity Protection System, which protects the .gov web domain from cyberattacks.[3] Northrop Grumman submitted a $732 million offer, and upon losing, protested the results, stating that Raytheon had an "unfair competitive advantage" because they had in the past hired former department officials. The protest was thwarted by the Government Accountability Office, which reviewed Northrop's case, but ultimately let the awarding of the contract to Raytheon stand.[3]

Financial Analysis

In assessing and forecasting Raytheon's financial statements, it is clear that the company will continue to grow and be extremely profitable.

Comparison of Important Industry Related Financial Ratios

In comparing the key financial ratios between the five leading Aerospace and Defense companies, Raytheon stands out as the healthiest and most financially stable company for various reasons. Raytheon's current ratio is a solid 1.66, the highest in comparison with its peers. This illustrates how Raytheon has a much higher liquidity when compared to its competitors. It is important to note that larger companies in this industry frequently have lower current ratios, due to the fact that they generate a plentiful amount of cash through operation and therefore, do not need to maintain a large working capital cushion. But, Raytheon is considered a large company in this industry, and despite that designation, they have an above average current ratio.

Raytheon's debt to equity ratio really stands out when compared with its main competitor, Lockheed Martin. Lockheed Martin has a debt to equity ratio of almost 900%, which means that the company is extremely leveraged and is operating with an enormous amount of debt obligations. When compared to Raytheon's 50% debt to equity ratio, it is easy to see that over a short to medium term investment horizon, Raytheon is the safer investment due to the fact that a downturn in the market would harm Raytheon at a fraction of the magnitude that it would hurt Lockheed Martin, due to the amount of financial leverage that Lockheed is operating with.

Operating margins are key in measuring a company's profitability. Raytheon has an operating margin of around 13.50%, compared with an average of 11.88% of their five peers. This is an impressive statistic, being that three out of four of Raytheon's peers are operating with higher levels of financial leverage, which due to the bullish trends of the market and economy, have helped in positively affecting their profitability.

When evaluating the return on equity and return on assets ratios for Raytheon, at first glance, they may look lower than their competitors. But, as previously stated, many of their contestants are operating with extreme levels of debt, which will make "the good times better, and the bad times worse". This explains why companies like Lockheed Martin and Boeing have posted ROEs of over 200% and 100%, respectively. When comparing Raytheon's ROE and ROA with companies like United Technologies or General Dynamics, who

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are operating with debt levels closer to Raytheon, one can see that the ratios are in fact impressive and illustrate Raytheon's ability to easily achieve profitability.

Figure 5: Comparison of Financial Ratios
Main Competitors of Raytheon Co.

	Current Ratio	Debt/Equity	Operating Margin	ROE	ROA
Averages	1.32	438.27%	11.88%	86.90%	7.70%
$RTN	1.66	50.74%	13.46%	21.90%	7.45%
$LMT	1.20	889.29%	11.74%	230.12%	10.92%
$BA	1.25	1134.78%	6.17%	136.88%	5.31%
$UTX	1.30	81.12%	14.28%	18.40%	5.71%
$GD	1.20	35.42%	13.74%	27.22%	9.11%

Source: Bloomberg

Earnings
Raytheon's earnings history has been very solid and dependable over the last few years. In the last year, three out of four quarterly earnings results were positive surprises by greater than 2%, with the greatest surprise coming in 2Q17, which beat consensus estimates by 7.5%. The other earnings release was in line with estimates. In addition, when looking at Raytheon's earnings history over the last three years, eleven out of twelve quarterly earnings results (roughly 92%) were positive surprises by greater than 2%. We are estimating EPS for 2017 to be around $7.75 per share, after taking the net income estimate for FY 2017 from the projected income statement and dividing it by the current number of outstanding shares.

Cash Flow
Raytheon's free cash flow has been growing at an average rate of 6.44% over the past five years, indicating that the company is operating efficiently. The ability of Raytheon to have continuous free cash flow growth year after year is a main reason why the firm has had the ability to raise their dividend for thirteen consecutive years. Using the computed future growth rates, the predicted amount of free cash flow to equity for Raytheon at the end of FY 2019 will break $2.5 billion, offering $8.30 per share of FCFE based off of the current number of outstanding shares. With an increasing cash flow, in addition to raising their dividend, Raytheon will have the ability to conduct stock buyback plans, which will increase shareholder wealth.

Balance Sheet
According to the forecasted balance sheet, Raytheon's liquidity will continue to hold strong, which is an indicator of excellent financial health. Raytheon's forecasted current ratio based off their estimated current assets and current liabilities are 1.76 for this year end, 1.72 for FY 2018, and 1.69 for FY 2019. In addition, the firm's long-term debt to equity ratio will remain in safe areas (compared to their competitors), with projections showing 52.40% for the end of this year, 54.11% for FY 2018, and 55.88% for FY 2019. Overall, the projection of the balance sheet for Raytheon illustrates that the company will continue to operate efficiently and with lower risk when compared to its peers in the industry.

Investment Risks

The Continued Effort to Source Revenue Outside of U.S.
The most significant risk to Raytheon would be trying to predict the future trajectory of U.S. defense spending. Around 65% (around $15.5 billion) of Raytheon's revenue was from the U.S. Department of Defense,[8] so any change in the U.S.'s defense spending or defense contracting could have a very harmful effect on Raytheon's revenues and profits. Due to this, Raytheon has emphasized their goal to increase their international presence.

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[2]Yahoo Finance
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[4]Thomson Reuters
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Middle Eastern Customers
Falling oil prices could lead to a decrease in the amount of business that Raytheon receives from its Middle Eastern customers, whom make up nearly half of the firm's international sales.

Commercializing Segments
In 2015, Raytheon paid a large amount of money to purchase Websense and create their cybersecurity division known as Forcepoint. The deal both surprised and frightened investors, because in the past, when defense companies have attempted to enter the commercial market, they have for the most part been unsuccessful. The failure can be attributed to the fact that dealing with the U.S. Government or other countries is a much different process than dealing with corporate customers is.

Acquisitions of Competitor Firms
Over the past few months, there have been a couple major acquisitions in the Aerospace and Defense industry that could pose long-term threats to Raytheon.

The first acquisition took place in early September when United Technologies agreed to purchase Rockwell Collins for $23 billion in the largest acquisition in the industry's history. As a result of this purchase, United Technologies will be creating a new aerospace systems segment, named Collins Aerospace Systems. In addition, United Technologies gained a large amount of aircraft technology, and disclosed that they will have all of the components needed through the addition of Rockwell Collins to build autonomous piloting airplanes.

The latest acquisition occurred towards the middle of September, when Northrop Grumman bought Orbital ATK for $7.8 billion. This acquisition could potentially pose a greater threat than the United Technologies acquisition because Orbital ATK is a rocket a defense contractor, whereas Rockwell Collins focused more on aircraft parts and production. Northrop Grumman plans to establish Orbital as a new independent business sector within the company. In addition to bringing rocket production to Northrop Grumman, Orbital will also add value to the areas of missiles, defense electronics, and precision weapons inside of their new parent company.

Figure A: Income Statement
$ in millions, FY 2017, 2018, and 2019 Projected

Raytheon Co (RTN US) - Income Statement

In Millions of USD except Per Share 12 Months Ending	FY 2006 12/31/2006	FY 2007 12/31/2007	FY 2008 12/31/2008	FY 2009 12/31/2009	FY 2010 12/31/2010	FY 2011 12/31/2011	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016	FY 2017 Est 12/31/2017	FY 2018 Est 12/31/2018	FY 2019 Est 12/31/2019
Revenue	**19,707.000**	**21,301.000**	**23,174.000**	**24,881.000**	**25,183.000**	**24,791.000**	**24,414.000**	**23,706.000**	**22,826.000**	**23,247.000**	**24,069.000**	**25,316.059**	**26,512.444**	**27,825.735**
+ Sales & Services Revenue	—	—	—	24,881.000	25,183.000	24,791.000	24,414.000	23,706.000	22,826.000	23,247.000	24,069.000	25,316.059	26,512.444	**27,825.735**
- Cost of Revenue	15,977.000	17,037.000	18,513.000	19,747.000	20,303.000	19,664.000	19,092.000	18,532.000	17,295.000	17,574.000	17,947.000	18,876.867	19,768.949	**20,748.202**
+ Cost of Goods & Services	—	—	—	19,747.000	20,303.000	19,664.000	19,092.000	18,532.000	17,295.000	17,574.000	17,947.000	18,876.867	19,768.949	**20,748.202**
Gross Profit	**3,730.000**	**4,264.000**	**4,661.000**	**5,134.000**	**4,880.000**	**5,127.000**	**5,322.000**	**5,174.000**	**5,531.000**	**5,673.000**	**6,122.000**	**6,439.192**	**6,743.495**	**7,077.533**
+ Other Operating Income	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
- Operating Expenses	1,786.000	1,936.000	2,065.000	2,111.000	1,878.000	2,285.000	2,336.000	2,170.000	2,308.000	2,810.000	3,040.000	3,197.508	3,348.616	3,514.489
+ Selling, General & Admin	1,322.000	1,434.000	1,548.000	1,527.000	1,648.000	1,672.000	1,629.000	1,771.000	1,852.000	1,954.000	2,127.000	2,237.204	2,342.929	2,458.986
+ General & Administrative	—	—	—	—	—	—	—	—	*1,852.000*	*1,954.000*	*2,127.000*	*2,237.204*	*2,342.929*	*2,458.986*
+ Research & Development	—	—	—	565.000	625.000	625.000	704.000	465.000	500.000	706.000	755.000	794.118	831.646	872.842
+ Other Operating Expense	—	—	—	19.000	-395.000	-12.000	3.000	-66.000	-44.000	150.000	158.000	166.186	174.040	182.661
Operating Income (Loss)	**1,944.000**	**2,328.000**	**2,596.000**	**3,023.000**	**3,002.000**	**2,842.000**	**2,986.000**	**3,004.000**	**3,223.000**	**2,863.000**	**3,082.000**	**3,241.684**	**3,394.879**	**3,563.044**
- Non-Operating (Income) Loss	—	—	—	112.000	102.000	170.000	181.000	181.000	196.000	226.000	210.000	220.880	231.319	242.777
+ Interest Expense, Net	197.000	33.000	65.000	109.000	110.000	158.000	192.000	198.000	203.000	222.000	216.000	227.191	237.928	249.714
+ Interest Expense	*272.000*	*196.000*	*129.000*	*123.000*	*126.000*	*172.000*	*201.000*	*210.000*	*213.000*	*233.000*	*232.000*	*244.020*	*255.552*	*268.211*
- Interest Income	*75.000*	*163.000*	*64.000*	*14.000*	*16.000*	*14.000*	*9.000*	*12.000*	*10.000*	*11.000*	*16.000*	*16.829*	*17.624*	*18.497*
+ Foreign Exch (Gain) Loss	0.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ (Income) Loss from Affiliates	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	—	—	—	—	—
+ Other Non-Op (Income) Loss	—	—	—	3.000	-8.000	12.000	-11.000	-17.000	-7.000	4.000	-6.000	-6.311	-6.609	-6.936
Pretax Income (Loss), Adjusted	**1,791.000**	**2,225.000**	**2,498.000**	**2,911.000**	**2,900.000**	**2,672.000**	**2,805.000**	**2,823.000**	**3,027.000**	**2,637.000**	**2,872.000**	**3,020.804**	**3,163.561**	**3,320.267**
- Abnormal Losses (Gains)	0.000	-219.000	0.000	-19.000	468.000	12.000	26.000	66.000	44.000	-150.000	-158.000	-166.186	-174.040	-182.661
+ Merger/Acquisition Expense	—	—	—	—	—	—	—	45.000	40.000	26.000	—	—	—	—
+ Early Extinguishment of Debt	—	—	—	—	73.000	—	29.000	—	—	—	—	—	—	—
+ Gain/Loss on Sale/Acquisition of Business	—	—	—	—	—	—	—	—	—	—	-158.000	-166.186	-174.040	-182.661
+ Legal Settlement	—	—	—	-19.000	—	21.000	31.000	9.000	2.000	-181.000	—	—	—	—
+ Restructuring	—	—	—	—	395.000	—	—	—	—	5.000	—	—	—	—
+ Insurance Settlement	—	—	—	—	—	-9.000	-34.000	12.000	2.000	—	—	—	—	—
Pretax Income (Loss), GAAP	**1,791.000**	**2,225.000**	**2,498.000**	**2,930.000**	**2,432.000**	**2,660.000**	**2,779.000**	**2,757.000**	**2,983.000**	**2,787.000**	**3,030.000**	**3,186.990**	**3,337.600**	**3,502.928**
Pretax Income (Loss), Adjusted	**1,791.000**	**2,225.000**	**2,498.000**	**2,911.000**	**2,900.000**	**2,672.000**	**2,805.000**	**2,823.000**	**3,027.000**	**2,637.000**	**2,872.000**	**3,020.804**	**3,163.561**	**3,320.267**
- Abnormal Losses (Gains)	0.000	-219.000	0.000	-19.000	468.000	12.000	26.000	66.000	44.000	-150.000	-158.000	-166.186	-174.040	-182.661
+ Merger/Acquisition Expense	—	—	—	—	—	—	—	45.000	40.000	26.000	—	—	—	—
+ Early Extinguishment of Debt	—	—	—	—	73.000	—	29.000	—	—	—	—	—	—	—
+ Gain/Loss on Sale/Acquisition of Business	—	—	—	—	—	—	—	—	—	—	-158.000	-166.186	-174.040	-182.661
+ Legal Settlement	—	—	—	-19.000	—	21.000	31.000	9.000	2.000	-181.000	—	—	—	—
+ Restructuring	—	—	—	—	395.000	—	—	—	—	5.000	—	—	—	—
+ Insurance Settlement	—	—	—	—	—	-9.000	-34.000	12.000	2.000	—	—	—	—	—
Pretax Income (Loss), GAAP	**1,791.000**	**2,225.000**	**2,498.000**	**2,930.000**	**2,432.000**	**2,660.000**	**2,779.000**	**2,757.000**	**2,983.000**	**2,787.000**	**3,030.000**	**3,186.990**	**3,337.600**	**3,502.928**
- Income Tax Expense (Benefit)	604.000	532.000	824.000	953.000	589.000	782.000	878.000	808.000	790.000	733.000	857.000	901.403	944.001	990.762
+ Current Income Tax	—	—	—	684.000	244.000	406.000	785.000	740.000	850.000	789.000	748.000	786.755	823.936	864.749
+ Deferred Income Tax	—	—	—	269.000	345.000	376.000	93.000	68.000	-60.000	-56.000	109.000	114.647	120.065	126.013
+ Tax Allowance/Credit	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	—	—	—	—
Income (Loss) from Cont Ops	**1,187.000**	**1,693.000**	**1,674.000**	**1,977.000**	**1,843.000**	**1,878.000**	**1,901.000**	**1,949.000**	**2,193.000**	**2,054.000**	**2,173.000**	**2,285.587**	**2,393.599**	**2,512.166**
- Net Extraordinary Losses (Gains)	-96.000	-885.000	2.000	1.000	-36.000	-18.000	1.000	-64.000	-65.000	-13.000	-1.000	-1.052	-1.102	-1.156
+ Discontinued Operations	-96.000	-885.000	—	1.000	-36.000	-18.000	1.000	-64.000	-65.000	-13.000	-1.000	-1.052	-1.102	-1.156
+ XO & Accounting Changes	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Income (Loss) Incl. MI	**1,283.000**	**2,578.000**	**1,672.000**	**1,976.000**	**1,879.000**	**1,896.000**	**1,900.000**	**2,013.000**	**2,258.000**	**2,067.000**	**2,174.000**	**2,286.639**	**2,394.701**	**2,513.322**
- Minority Interest	0.000	0.000	—	41.000	39.000	30.000	12.000	17.000	14.000	-7.000	-37.000	-38.917	-40.756	-42.775
Net Income, GAAP	**1,283.000**	**2,578.000**	**1,672.000**	**1,935.000**	**1,840.000**	**1,866.000**	**1,888.000**	**1,996.000**	**2,244.000**	**2,074.000**	**2,211.000**	**2,247.722**	**2,353.945**	**2,470.547**
- Preferred Dividends	0.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
- Other Adjustments	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Income Avail to Common, GAAP	**1,283.000**	**2,578.000**	**1,672.000**	**1,935.000**	**1,840.000**	**1,866.000**	**1,888.000**	**1,996.000**	**2,244.000**	**2,074.000**	**2,211.000**	**2,247.722**	**2,353.945**	**2,470.547**

Source: Bloomberg

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

Figure B: Balance Sheet
$ in millions, FY 2017, 2018, and 2019 Projected

Raytheon Co (RTN US) - Balance Sheet

In Millions of USD except Per Share 12 Months Ending	FY 2006 12/31/2006	FY 2007 12/31/2007	FY 2008 12/31/2008	FY 2009 12/31/2009	FY 2010 12/31/2010	FY 2011 12/31/2011	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016	FY 2017 Est Est. 12/31/2017	FY 2018 Est Est. 12/31/2018	FY 2019 Est Est. 12/31/2019
Total Assets														
+ Cash, Cash Equivalents & STI	2,460.000	2,655.000	2,259.000	2,642.000	3,638.000	4,000.000	4,044.000	4,297.000	4,719.000	3,200.000	3,403.000	3,516.478	3,633.740	3,761.930
+ Cash & Cash Equivalents	2,460.000	2,655.000	2,259.000	2,642.000	3,638.000	4,000.000	3,188.000	3,296.000	3,222.000	2,328.000	3,303.000	3,413.143	3,526.959	3,644.570
+ ST Investments	0.000	0.000	—	0.000	0.000	0.000	856.000	1,001.000	1,497.000	872.000	100.000	103.335	106.780	110.341
+ Accounts & Notes Receiv	141.000	126.000	105.000	120.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Accounts Receivable, Net	141.000	126.000	105.000	120.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Notes Receivable, Net	—	—	—	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Unbilled Revenues	—	—	—	4,373.000	4,414.000	4,526.000	4,543.000	4,870.000	4,985.000	5,564.000	6,202.000	6,408.814	6,622.525	6,843.362
+ Inventories	3,976.000	4,207.000	4,118.000	344.000	363.000	336.000	381.000	363.000	414.000	635.000	659.000	680.975	703.683	727.149
+ Raw Materials	56.000	63.000	56.000	60.000	63.000	60.000	74.000	73.000	70.000	69.000	66.000	68.201	70.475	72.825
+ Work In Process	3,829.000	4,097.000	4,017.000	257.000	278.000	264.000	291.000	279.000	326.000	551.000	583.000	602.441	622.530	643.289
+ Finished Goods	91.000	47.000	45.000	27.000	22.000	12.000	16.000	11.000	18.000	15.000	10.000	10.333	10.678	11.034
+ Other Inventory	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Other ST Assets	2,940.000	628.000	935.000	389.000	407.000	447.000	278.000	286.000	161.000	413.000	414.000	427.805	442.071	456.813
+ Derivative & Hedging Assets	—	—	—	0.000	0.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Deferred Tax Assets	—	—	—	273.000	266.000	221.000	96.000	24.000	—	—	—	—	—	—
+ Misc ST Assets	—	—	—	116.000	141.000	226.000	182.000	262.000	161.000	413.000	414.000	427.805	442.071	456.813
Total Current Assets	**9,517.000**	**7,616.000**	**7,417.000**	**7,868.000**	**8,822.000**	**9,309.000**	**9,246.000**	**9,816.000**	**10,279.000**	**9,812.000**	**10,678.000**	**11,034.073**	**11,402.019**	**11,789.223**
+ Property, Plant & Equip, Net	2,025.000	2,058.000	2,024.000	2,001.000	2,003.000	2,006.000	1,986.000	1,937.000	1,935.000	2,085.000	2,166.000	2,249.766	2,336.772	2,427.142
+ Property, Plant & Equip	5,283.000	5,478.000	5,517.000	5,655.000	5,844.000	5,968.000	6,140.000	6,256.000	6,426.000	6,533.000	6,794.000	7,056.746	7,329.652	7,613.113
- Accumulated Depreciation	3,258.000	3,420.000	3,493.000	3,654.000	3,841.000	3,962.000	4,154.000	4,319.000	4,491.000	4,528.000	4,628.000	4,806.979	4,992.881	5,185.971
+ LT Investments & Receivables	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Other LT Assets	13,949.000	13,607.000	13,855.000	13,738.000	13,597.000	14,539.000	15,454.000	14,214.000	15,502.000	17,464.000	17,208.000	17,873.488	18,564.713	19,282.669
+ Total Intangible Assets	11,461.000	11,627.000	11,662.000	11,922.000	12,045.000	12,544.000	12,756.000	12,990.000	13,677.000	15,725.000	15,677.000	16,283.279	16,913.006	17,567.085
+ Goodwill	*11,461.000*	*11,627.000*	*11,662.000*	*11,822.000*	*12,045.000*	*12,544.000*	*12,756.000*	*12,784.000*	*13,061.000*	*14,731.000*	*14,788.000*	15,359.899	15,953.915	16,570.904
+ Other Intangible Assets	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*206.000*	*616.000*	*994.000*	*889.000*	923.380	959.091	996.182
+ Deferred Tax Assets	—	—	—	436.000	106.000	657.000	1,367.000	66.000	—	—	—	—	—	—
+ Derivative & Hedging Assets	—	—	—	69.000	45.000	12.000	—	23.000	7.000	8.000	53.000	55.050	57.179	59.390
+ Prepaid Pension Costs	—	—	—	111.000	—	—	—	—	28.000	—	19.000	19.735	20.496	21.291
+ Misc LT Assets	2,488.000	1,980.000	2,193.000	1,200.000	1,401.000	1,326.000	1,331.000	1,126.000	1,790.000	1,730.000	1,459.000	1,515.424	1,574.030	1,634.903
Total Noncurrent Assets	**15,974.000**	**15,665.000**	**15,879.000**	**15,739.000**	**15,600.000**	**16,545.000**	**17,440.000**	**16,151.000**	**17,437.000**	**19,469.000**	**19,374.000**	**20,123.254**	**20,901.484**	**21,709.811**
Total Assets	**25,491.000**	**23,281.000**	**23,296.000**	**23,607.000**	**24,422.000**	**25,854.000**	**26,686.000**	**25,967.000**	**27,716.000**	**29,281.000**	**30,052.000**	**31,157.327**	**32,303.503**	**33,499.034**
Liabilities & Shareholders' Equity														
+ Payables & Accruals	910.000	1,141.000	1,201.000	3,266.000	3,718.000	3,566.000	3,504.000	3,434.000	2,309.000	2,556.000	2,754.000	2,804.430	2,845.665	2,883.567
+ Accounts Payable	910.000	1,141.000	1,201.000	1,397.000	1,538.000	1,507.000	1,348.000	1,178.000	1,250.000	1,402.000	1,520.000	1,540.245	1,560.760	1,581.547
+ Accrued Taxes	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	—	—	—	—	—
+ Interest & Dividends Payable	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	—	—	—	—	—
+ Other Payables & Accruals	—	—	—	1,869.000	2,180.000	2,059.000	2,156.000	2,256.000	1,059.000	1,154.000	1,234.000	1,250.436	1,267.090	1,283.967
+ ST Debt	687.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ ST Borrowings	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ ST Capital Leases	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Other ST Liabilities	5,118.000	3,647.000	3,948.000	2,257.000	2,242.000	2,564.000	2,398.000	2,376.000	3,443.000	3,570.000	3,673.000	3,721.921	3,771.493	3,821.726
+ Deferred Revenue	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Derivatives & Hedging	—	—	—	33.000	41.000	22.000	—	26.000	24.000	29.000	48.000	48.639	49.287	49.944
+ Misc ST Liabilities	5,118.000	3,647.000	3,948.000	2,224.000	2,201.000	2,542.000	2,398.000	2,350.000	3,419.000	3,541.000	3,625.000	3,673.282	3,722.206	3,771.782
Total Current Liabilities	**6,715.000**	**4,788.000**	**5,149.000**	**5,523.000**	**5,960.000**	**6,130.000**	**5,902.000**	**5,810.000**	**5,752.000**	**6,126.000**	**6,427.000**	**6,526.351**	**6,617.158**	**6,705.293**
+ LT Debt	3,278.000	2,268.000	2,309.000	2,329.000	3,610.000	4,605.000	4,731.000	4,734.000	5,325.000	5,330.000	5,335.000	5,641.763	5,966.164	6,309.218
+ LT Borrowings	—	—	—	2,329.000	3,610.000	4,605.000	4,731.000	4,734.000	5,325.000	5,330.000	5,335.000	5,641.763	5,966.164	6,309.218
+ LT Capital Leases	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Other LT Liabilities	4,232.000	3,467.000	6,488.000	5,816.000	4,962.000	6,779.000	7,863.000	4,226.000	6,918.000	7,140.000	7,775.000	8,222.063	8,694.831	9,194.784
+ Accrued Liabilities	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Pension Liabilities	—	—	—	5,793.000	4,815.000	6,774.000	7,854.000	3,903.000	6,918.000	7,140.000	7,775.000	8,222.063	8,694.831	9,194.784
+ Deferred Revenue	—	—	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Deferred Tax Liabilities	—	—	—	23.000	147.000	5.000	9.000	323.000	—	—	—	—	—	—
+ Derivatives & Hedging	—	—	—	0.000	0.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Misc LT Liabilities	4,232.000	3,467.000	6,488.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Noncurrent Liabilities	**7,510.000**	**5,735.000**	**8,797.000**	**8,145.000**	**8,572.000**	**11,384.000**	**12,594.000**	**8,960.000**	**12,243.000**	**12,470.000**	**13,110.000**	**13,863.825**	**14,660.995**	**15,504.002**
Total Liabilities	**14,225.000**	**10,523.000**	**13,946.000**	**13,668.000**	**14,532.000**	**17,514.000**	**18,496.000**	**14,770.000**	**17,995.000**	**18,596.000**	**19,537.000**	**20,390.176**	**21,278.153**	**22,209.295**
+ Preferred Equity and Hybrid Capital	0.000	0.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Share Capital & APIC	10,102.000	10,548.000	10,877.000	10,995.000	11,410.000	3,526.000	2,931.000	1,975.000	1,312.000	401.000	3.000	3.072	3.146	3.221
+ Common Stock	—	—	—	4.000	4.000	3.000	3.000	3.000	3.000	3.000	3.000	3.072	3.146	3.221
+ Additional Paid in Capital	—	—	—	10,991.000	11,406.000	3,523.000	2,928.000	1,972.000	1,309.000	398.000	0.000	0.000	0.000	0.000
- Treasury Stock	816.000	2,502.000	4,254.000	5,446.000	6,900.000	—	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
+ Retained Earnings	4,329.000	6,452.000	7,646.000	9,102.000	10,390.000	11,656.000	12,883.000	14,173.000	15,671.000	16,803.000	17,474.000	17,893.030	18,322.108	18,761.475
+ Other Equity	-2,514.000	-1,956.000	-5,102.000	-4,824.000	-5,146.000	-7,001.000	-7,708.000	-5,113.000	-7,458.000	-7,076.000	-7,411.000	-7,588.717	-7,770.696	-7,957.028
Equity Before Minority Interest	**11,101.000**	**12,542.000**	**9,087.000**	**9,827.000**	**9,754.000**	**8,181.000**	**8,026.000**	**11,035.000**	**9,525.000**	**10,128.000**	**10,066.000**	**10,307.384**	**10,554.557**	**10,807.658**
+ Minority/Non Controlling Interest	165.000	216.000	263.000	112.000	136.000	159.000	164.000	162.000	196.000	557.000	449.000	459.767	470.792	482.082
Total Equity	**11,266.000**	**12,758.000**	**9,350.000**	**9,939.000**	**9,890.000**	**8,340.000**	**8,190.000**	**11,197.000**	**9,721.000**	**10,685.000**	**10,515.000**	**10,767.152**	**11,025.350**	**11,289.740**
Total Liabilities & Equity	**25,491.000**	**23,281.000**	**23,296.000**	**23,607.000**	**24,422.000**	**25,854.000**	**26,686.000**	**25,967.000**	**27,716.000**	**29,281.000**	**30,052.000**	**31,157.327**	**32,303.503**	**33,499.034**

Source: Bloomberg

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

Figure C: Statement of Cash Flows
$ in millions, FY 2017, 2018, and 2019 Projected

Raytheon Co (RTN US) - Free Cash Flow to Equity Valuation				$ 189.07
Projected Free Cash Flow Statement				
In Millions of USD except Per Share	FY 2016 12/31/2016	FY 2017 Est. 12/31/2017	FY 2018 Est. 12/31/2018	FY 2019 Est. 12/31/2019
Growth Rate		**6.44%**	**6.44%**	**5.00%**
Cash from Operating Activities				
+ Net Income	2,211.000	2,353.451	2,505.080	2,630.334
+ Depreciation & Amortization	515.000	548.181	583.499	612.674
+ Non-Cash Items	-488.000	-519.441	-552.908	-580.553
+ Stock-Based Compensation	151.000	160.729	171.084	179.638
+ Deferred Income Taxes	109.000	116.023	123.498	129.673
+ Other Non-Cash Adj	-748.000	-796.192	-847.490	-889.864
+ Chg in Non-Cash Work Cap	615.000	654.623	696.800	731.640
+ (Inc) Dec in Accts Receiv	—	—	—	—
+ (Inc) Dec in Inventories	-23.000	-24.482	-26.059	-27.362
+ Inc (Dec) in Accts Payable	152.000	161.793	172.217	180.828
+ Inc (Dec) in Other	486.000	517.312	550.642	578.174
+ Net Cash From Disc Ops	-1.000	-1.064	-1.133	-1.190
+ Net Working Capital	-565.00	-601.402	-640.149	-672.157
Cash from Operating Activities	**2,288.000**	**2,435.412**	**2,592.321**	**2,721.937**
Cash from Investing Activities				
+ Change in Fixed & Intang	-591.000	-629.08	-669.61	-703.09
+ Disp in Fixed & Intang	34.000	36.19	38.52	40.45
+ Disp of Fixed Prod Assets	*34.000*	36.19	38.52	40.45
+ Disp of Intangible Assets	*0.000*	0.00	0.00	0.00
+ Acq of Fixed & Intang	-625.000	-665.27	-708.13	-743.54
+ Acq of Fixed Prod Assets	*-561.000*	-597.14	-635.62	-667.40
+ Acq of Intangible Assets	*-64.000*	-68.12	-72.51	-76.14
+ Net Change in LT Investment	0.000	0.00	0.00	0.00
+ Dec in LT Investment	0.000	0.00	0.00	0.00
+ Inc in LT Investment	0.000	0.00	0.00	0.00
+ Net Cash From Acq & Div	-57.000	-60.67	-64.58	-67.81
+ Cash from Divestitures	0.000	0.00	0.00	0.00
+ Cash for Acq of Subs	-57.000	-60.67	-64.58	-67.81
+ Cash for JVs	0.000	0.00	0.00	0.00
+ Other Investing Activities	701.000	746.16	794.24	833.95
+ Net Cash From Disc Ops	—	—	—	—
Cash from Investing Activities	**53.000**	**56.415**	**60.049**	**63.052**
Free Cash Flow to Firm	**2,235.000**	**2,378.997**	**2,532.272**	**2,658.886**
Cash from Financing Activities				
+ Cash From (Repayment) Debt	0.000	0.00	0.00	0.00
+ Cash From (Repay) ST Debt	0.000	0.00	0.00	0.00
+ Cash From LT Debt	0.000	0.00	0.00	0.00
+ Repayments of LT Debt	0.000	0.00	0.00	0.00
+ Other Financing Activities	-84.000	0.00	0.00	0.00
Total Change in Net Debt	**-84.000**	**0.000**	**0.000**	**0.000**
Free Cash Flow to Equity	**2,151.000**	**2,378.997**	**2,532.272**	**2,658.886**

Source: Bloomberg

[1]Zacks Investment Research
[2]Yahoo Finance
[3]Bloomberg
[4]Thomson Reuters
5. Hoover's
6. CFRA Industry Report
7. TD Ameritrade Research & Ideas
8. Morningstar

Figure AA: Free Cash Flow to Equity Valuation Model
$ in millions

Raytheon Co (RTN US) - Free Cash Flow to Equity Valuation				
Projected Free Cash Flow per Share				$ 189.07
	FY 2016 12/31/2016	FY 2017 Est. 12/31/2017	FY 2018 Est. 12/31/2018	FY 2019 Est. 12/31/2019
Growth Rate		6.44%	6.44%	5.00%
Net Income	$ 7.62	$ 8.11	$ 8.63	$ 9.06
Depreciation & Amortization	$ 1.77	$ 1.89	$ 2.01	$ 2.11
Change In Net Working Capital	$ 1.95	$ 2.07	$ 2.21	$ 2.32
Operating Cash Flow	$ 7.45	$ 7.93	$ 8.44	$ 8.86
Operating Cash Flow	$ 7.45	$ 7.93	$ 8.44	$ 8.86
Net Capital Expenditures	$ 0.18	$ 0.19	$ 0.21	$ 0.22
Free Cash Flow to Firm	$ 7.26	$ 7.73	$ 8.23	$ 8.64
Free Cash Flow to Firm	$ 7.26	$ 7.73	$ 8.23	$ 8.64
Change in Net Debt	$ (0.29)	$ -	$ -	$ -
Free Cash Flow to Equity	$ 6.97	$ 7.73	$ 8.23	$ 8.64
Terminal Value	$ 312.14			
Total Cash Flows to Equity	$ 320.37			
Discounted Value	$ 275.85			
Potential Upside	45.90%			

Relevent Information	
Shares outstanding:	290.20
Required return on equity (r):	7.77%
Avg. FCF growth last 5 years	6.44%

FCF Growth last 5 Years		
Year	FCF	Change
2016	$2,291.00	17.31%
2015	$1,953.00	5.11%
2014	$1,858.00	-11.44%
2013	$2,098.00	29.67%
2012	$1,618.00	-8.43%
2011	$1,767.00	
	Average	6.44%

Change in NWC			
CA 2016	$10,678.00	CL 2016	$6,427.00
CA 2015	$9,812.00	CL 2015	$6,126.00
Change in CA	$866.00	Change in CL	$301.00
Change in NWC	$565.00		

CAPM			
10 Yr Treasury	2.38%	r	7.77%
S&P Historical Return	8.88%	MRP	6.50%
β	0.829		

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Figure AB: Two-Stage Dividend Discount Valuation Model
$ in millions

Raytheon Co (RTN US) - Two Stage Dividend Discount Model					$ 189.07
12 Months Ending	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016
Earnings/Share	$5.65	$5.96	$6.97	$6.75	$7.44
Average Earnings/Share					**$6.55**
Dividends	$2.00	$2.20	$2.42	$2.68	$2.93
Average Dividend					**$2.45**
Return on Equity	23.30%	20.90%	21.80%	21.10%	21.90%
Average Return on Equity					**21.80%**
Payout Ratio	35.40%	36.91%	34.72%	39.70%	39.38%
Average Payout Ratio					**37.32%**
Plowback Ratio	64.60%	63.09%	65.28%	60.30%	60.62%
Average Plowback Ratio					**62.78%**
Average 5 Year Growth Rate	**13.69%**				
Late Stage Growth Rate	**6.00%**				
2017 Dividend	**$3.19**				
2018 Projected Dividend	**$3.63**				
2019 Projected Dividend	**$4.12**				
Terminal Value	**$212.77**				
Total Discounted Value	**$223.71**				
Potential Upside	**18.32%**				

CAPM			
10Yr Treasury	2.38%	k	7.77%
S&P Historical Return	8.88%	MRP	6.50%
β	0.829		

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[2]Yahoo Finance
[3]Bloomberg
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