

RTX Corporation (NYSE: RTX)

Rating:	Neutral/Hold
Price Target (12M):	\$206
Current Price:	\$196
Upside:	5.0%

Valuation Summary

Intrinsic Value (DCF):	\$191
WACC / g:	6.8% / 2.5%
Bull / Base / Bear (DCF):	\$308 / \$191 / \$117

Equity & Enterprise Value

Diluted Shares:	1356m
Market Cap:	\$266.1B
Total Debt (FY25):	\$37.9B
Cash & Cash Equivalents (FY25):	\$7.4B
Net Debt (FY25):	\$30.5B
EV:	\$290.2B

Trading Multiples

P/E (NTM):	30.9x
EV/EBITDA (NTM):	19.0x
FCF Yield (NTM):	4.3%
Dividend Yield:	1.4%

Operating Profile

Revenue (LTM):	\$88.6B
EBIT Margin (FY25):	10.5%
FCFF (FY25):	\$12.3B

Positioned for a Multi-Year Defense Re-Rating

Structural geopolitics and long-cycle contracts shape valuation and cash-flow resilience

RTX (previously Raytheon Technologies) depicts a defense franchise whose earnings are shaped just as much by procurement cycles and geopolitics as by its traditional industrial fundamentals. RTX's exposure to sustainment programs, missile defense, and commercial aerospace aftermarket revenue positions the company as a hybrid defense-industrial platform with multi-year cash-flow support rather than purely cyclical exposure.

Our research combines fundamental analysis and scenario-based valuation methods to evaluate how the current pricing expresses these structural forces. Our objective is to determine where fundamentals and perception may diverge, and how RTX should be positioned within a long-term portfolio framework.

Across different scenarios, our key debate is whether RTX should be valued primarily as a cyclical aerospace and defense supplier or as a structurally support defense company with long-duration contract revenue. This difference is important, as aftermarket visibility and sustained defense procurement imply lower earnings volatility and more stability amid macro uncertainty. We believe that current pricing suggests the market recognizes RTX's durability but assigns a limited premium for multi-year CF visibility which leaves upside more dependent on execution and sustained defense spending.

Executive Summary

RTX is an aerospace and defense contractor with their earnings being supported by missile defense demand, sustainment-heavy procurement programs, and a recovering commercial aerospace aftermarket. We believe these dynamics provide good multi-year revenue visibility and underpin a gradual improvement in FCF generation following their recent operational headwinds in 2023.

Even though we believe the structural defense backdrop remains intact, RTX's current valuation suggests that it is consistent with normalized earnings and backlog visibility. Because of this, a forward return is likely to be more dependent on operation execution, margin recovery, and sustained geopolitical defense spending rather than on multiple expansion alone. We view RTX as offering a very durable and balanced upside, consistent with our neutral investment stance.

Key Considerations:

- **Defense demand remains structurally supported**, particularly in missile and air defense
- **Commercial aerospace recovery** should contribute to margin normalization as well as incremental CF growth
- **Valuation screens near historical and peer ranges** which limit near-term re-rating potential
- **Upside catalysts:** faster-than-expected margin recovery, backlog conversion, continued geopolitical defense spending momentum as well as heightened geopolitical tensions
- **Downside Risks:** center on defense budget normalization, aerospace and defense cycle softness, execution variability across major programs

Overall, we believe RTX represents a **stable cash-flow compounder rather than a clear mispricing within the market**. We expect returns to be skewed toward steady operational delivery rather than a valuation-driven upside.

Geopolitical Regime

Structural Defense Cycle

Defense spending across the globe has shifted toward a structurally supported expansion driven by increasing geopolitical fragmentation and power competition as well as a renewed emphasis on military readiness and military spending across economies from a previously cyclical normalization. Different from prior defense upcycles that follow specific conflicts, the current spending priorities reflect longer-duration initiatives that extend beyond near-term geopolitical events. In 2024, global military spending surged to a record \$2.7T, driven by a worldwide rise in geopolitical tensions including the Russia-Ukraine and Middle East conflicts¹. We think these dynamics support improved visibility for aerospace and defense contractors with exposure to sustainment and lifecycle services.

For RTX specifically, we believe this structural backdrop is particularly relevant given the company's positioning across missile defense, sensing technologies, and long-term service contracts rather than a focus and reliance on a single large procurement platform. Revenue streams tied to sustainment and recurring support historically demonstrate lower cyclicity and more stable FCF conversion, reinforcing our view that the present environment represents a durability shift rather than a temporary demand spike.

Nato Spending Acceleration

Since 2022, NATO member states have since accelerated progress toward the alliance's long-standing **2% of GDP defense-spending benchmark**, with several large European economies committing to sustained multi-year budget increases (*Figure 1*). We believe it is important to note that incremental spending is becoming increasingly more directed towards air and missile defense, precision munitions, and surveillance systems. All of these categories are characterized by high technological barriers, recurring procurement, and extended contract duration.

This fiscal expansion meaningfully reduces the historical dependence of defense demand on US budget cycles alone. A more geographically diversified spending base enhances revenue visibility across the sector and supports backlog stability for contractors with multinational exposure, including RTX. As a result, we think that NATO re-armament should be viewed more as a **structural reset in defense spending** and less as a short-term policy reaction.

¹ **Source:** Reuters, *Global Defense Industry Spending: Interactive Data* (accessed Feb 2026), <https://www.reuters.com/graphics/BUSINESS-DEFENSE/lbvgmjwxrvq/>

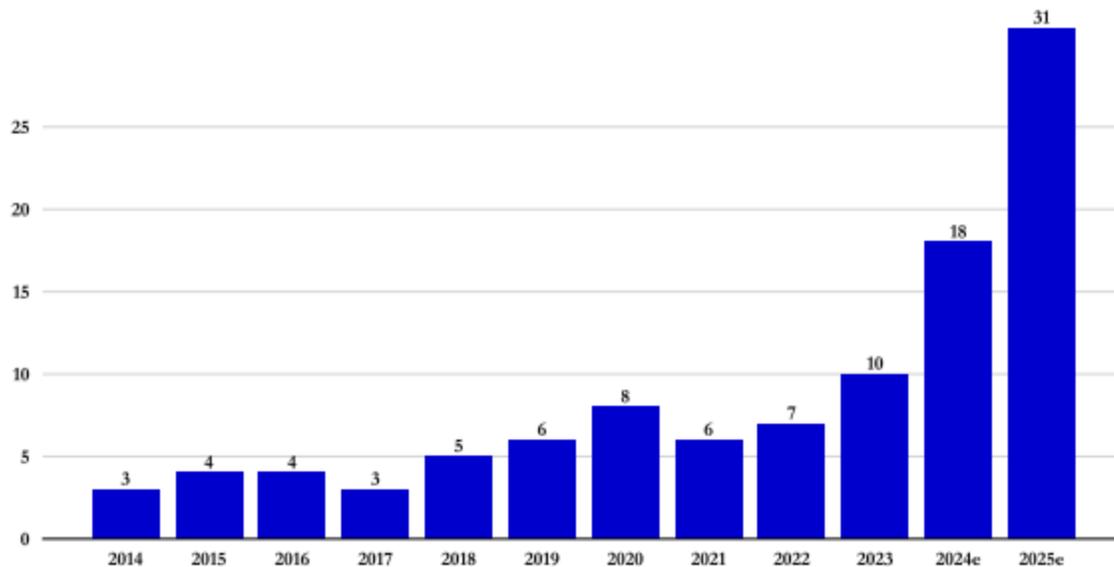


Figure 1: NATO members meeting the 2% of GDP defense spending threshold have increased materially since 2014, and are projected to grow exponentially, reinforcing the structural nature of alliance re-armament.

Source: NATO, Defence Expenditure of NATO Countries (2014–2025).

Missile Replenishment & Sustained Demand

Recent conflicts have depleted Western inventories of interceptors, precision guided munitions, and critical defense systems, creating an urgent need for replenishment that extends across multiple fiscal years. Most recently, RTX (via Raytheon missiles) secured a 7-year agreement with the U.S. DoD to scale production of Tomahawks, AMRAAMs, and SM-series interceptors². This signals sustained demand in backlog pipelines. Replenishment dynamics differ from platform procurement in the sense that instead of one-time purchases, they typically involve **sustainment support, ongoing production runs, and lifecycle servicing**, all of which contribute to smoother revenue realization and longer backlog duration for RTX.

RTX's exposure to missile defense systems, advanced interceptors, and classified sensing technologies places the company directly within this replenishment cycle. Because these programs carry high margins, multi-year funding commitments, and limited competitive substitution we strongly believe these replenishment demands represent one of the most structurally supportive elements of the current defense environment.

Why the Current Cycle Appears Multi-Year Rather Than Cyclical

When taken into consideration together we think that NATO re-armament, inventory rebuilding, and sustained readiness priorities suggest that present defense spending closely resembles **early-to-middle phase of a multi-year procurement cycle** rather than a late-cycle surge. Replenishment requirements inherently extend beyond the duration of any single conflict which implies longer-term demand visibility for core defense capabilities.

For valuation purposes, this distinction is critical as multi-year procurement and sustainment intensity imply **lower earnings volatility, improved FCF visibility, and reduced cyclicality** relative to historical aerospace downturns. While geopolitical stability may fluctuate, the underlying shift toward preparedness and deterrence supports a more stable medium-term operating environment for RTX, effectively forming the macro foundation for the company's fundamental outlook and balanced valuation profile.

²Source: Reuters, Raytheon secures deal to build thousands of missiles for U.S., including Tomahawks (Feb. 4, 2026), <https://www.reuters.com/business/aerospace-defense/raytheon-secures-deal-build-thousands-missiles-us-including-tomahawks-2026-02-04/>

Fundamental & Segment Analysis

Collins Aerospace

Collins Aerospace provides diversified exposure across commercial aviation systems, avionics, interiors, and defense electronics, with performance closely linked to global flight-hour recovery. Improving commercial utilization continues to support demand for high-margin aftermarket parts and maintenance services, which typically generate more stable earnings than original equipment sales. We think this revenue mix positions Collins as a **core stabilizing contributor** to RTX's consolidated profitability and cash flow.

Pratt & Whitney

Pratt & Whitney remains central to RTX's long-term growth through its geared turbofan engine platform and expanding installed base across narrow-body aircraft. Near-term profitability though, is measured by inspection requirements and durability-related maintenance actions that elevate service costs and weigh on margins, primarily due to the 2023 powder metal contamination issues affecting certain turbofan engines. While these remediation efforts create short-term headwinds, the large installed engine base should ultimately support recurring aftermarket revenue and long-duration cash-flow generation as operational conditions normalize. Therefore, we think execution and cost containment remain key variables in the segment's transition from **temporary drag to future contributor**.

Raytheon (Missiles & Defense)

The Raytheon segment anchors RTX's exposure to structural defense demand through missile defense systems, precision munitions, radars, and classified sensing technologies. Global inventory depletion and renewed air and missile defense prioritization have strengthened procurement visibility, supporting backlog durability and multi-year revenue realization. When compared with platform-driven aerospace programs, missile production and sustainment activity typically exhibit more consistent margins and cash-flow stability, which we consider positioning Raytheon as the **primary earnings beneficiary of the current defense cycle**.

Margins, Backlog, and Earnings Visibility

RTX's consolidated margin reflects near-term pressure from Pratt & Whitney remediation costs offset by aftermarket margins at Collins and supported defense profitability within Raytheon. AJAX believes this dynamic suggests more of a transitional rather than structural margin compression. Backlog across missile procurement, sustainment programs, and commercial engine service agreements continues to support forward revenue visibility and underpins expectations for **gradual earnings stabilization** as operational headwinds moderate.

FCF Trajectory

Free cash flow declined materially in 2023 to about \$3.8 billion amid Pratt & Whitney remediation costs before recovering to approximately \$9.4 billion in 2024 and \$12.3 billion in 2025, based on company filings and internal projections³. While near-term cash-conversion continues to reflect inspection-related expenses, recovery in commercial aerospace demand, and normalization of remediation activity collectively support a progressive improvement in medium-term cash generation. This recovery trajectory forms the primary foundation for valuation support, consistent with a balanced investment stance driven more by operational delivery rather than multiple expansion.

³RTX Corp., Form 10-K for fiscal year 2023, 2024, and 2025

Valuation Framework

Discounted Cash Flow Perspective

Our discounted cash-flow framework suggests that RTX's equity value is broadly supported by improving medium-term FCF generation following the 2023 trough associated with Pratt & Whitney remediation efforts. As inspection-related expenses, commercial aerospace activity, and defense demand recover and normalize, modeled cash-flow growth under base-case assumptions supports valuation near current trading levels. Sensitivity across discount rates and terminal growth assumptions indicated a **reasonable valuation range rather than a clear mispricing**, reinforcing our view that forward returns are likely to be more driven by operational execution.

Relative Valuation vs. Defense Peers

On a relative basis, RTX appears broadly in-line with large-cap U.S. defense peers such as **Lockheed Martin**, **Northrop Grumman**, and **General Dynamics** across forward earnings and cash-flow multiples. While RTX's diversified exposure to both commercial aerospace recovery and missile-defense demand support long-term durability, near-term margin pressure (although recovering) from Pratt & Whitney limits justification for a sustained premium multiple relative to peers with cleaner execution profiles. RTX's 5-year equity beta of 0.42 also remains closely comparable to the peer group, suggesting a similar risk profile. On the other hand, improving free-cash-flow conversion and backlog visibility reduces the likelihood of meaningful downside multiple compression, which positions RTX within a **fair-value relative valuation range** across the defense sector.

Investment Stance and Rating Rationale

A DCF-implied valuation and in-line peer multiples suggest RTX offers **durable but balanced return potential** under current assumptions. As stated previously, structural defense demand, recovering commercial aerospace activity, and medium-term free-cashflow normalization provide a constructive fundamental backdrop, however, much of this improvement already appears to be reflected in present valuation with possible incremental upside dependent on sustained execution and continued geopolitical spending momentum.

Correspondingly, we best characterize RTX as a **stable cash-flow compounder**, as it offers approximately a 1.4% annual dividend yield **rather than a clear valuation dislocation trade**, supporting our rating of a **Neutral / Hold** investment position. A more constructive rating would likely require clearer evidence of a valuation dislocation relative to defense peers and a rise in geopolitical tensions. These are conditions that remain plausible but not yet visible in the current outlook.

DCF Scenario Valuation

Current Price: \$196

Case	Implied Price	Upside
Bear	\$ 117	-40%
Base	\$ 191	-2%
Bull	\$ 308	57%

Figure 2: Scenario-based DCF valuation suggests fair-value positioning under base assumptions, with asymmetric outcomes driven by execution, remediation resolution, and defense demand durability. Source: Company filings and internal estimates

Forward P/E Comparison - U.S. Defense Primes

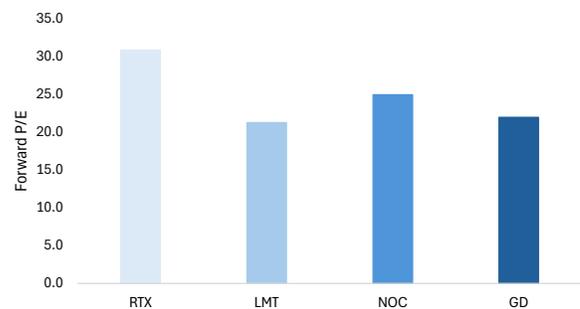


Figure 3: RTX trades at a noticeable premium to large-cap U.S. defense peers on forward earnings multiples, reflecting confidence in medium-term cash-flow recovery despite near-term margin headwinds. Source: Company filings, consensus estimates, and internal compilation

Risks & Catalysts

Key Upside Catalysts

- **Margin Nominalization at Pratt & Whitney** as inspection-related remediation costs moderate and fleet management actions stabilize service economics.
- **Sustained global defense spending growth**, particularly in missile defense, precision munitions, and integrated sensing systems.
- **Commercial aerospace aftermarket recovery** driven by rising global flight hours, improving high-margin spare-parts and maintenance demand across the installed engine base.
- **Free-cash-flow expansion and capital return capacity**, which could support valuation stability or incremental multiple support as remediation headwinds fade.

Key Downside Catalysts

- **Extended Pratt & Whitney remediation timeline** or higher-than-expected inspection and service costs, delaying margin recovery and FCF normalization.
- **Defense budget normalization or procurement delays**, particularly in the U.S. or allied spending cycles, reducing visibility for missile and sustainment programs.
- **Commercial aerospace cycle softness**, including slower-than-expected flight-hour recovery or airline capacity adjustments
- **Execution and program-level variability** across major defense players and aerospace platforms which could put pressure on margins or working-capital dynamics

Net Assessment

- Structural defense demand and commercial aftermarket recovery provide **medium-term earnings durability**.
- However, **current valuation already reflects much of the recovery and geopolitical outlook**, leaving forward returns dependent on execution.

Overall, we maintain that the balance of catalysts and risks support a Neutral / Hold investment stance.

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