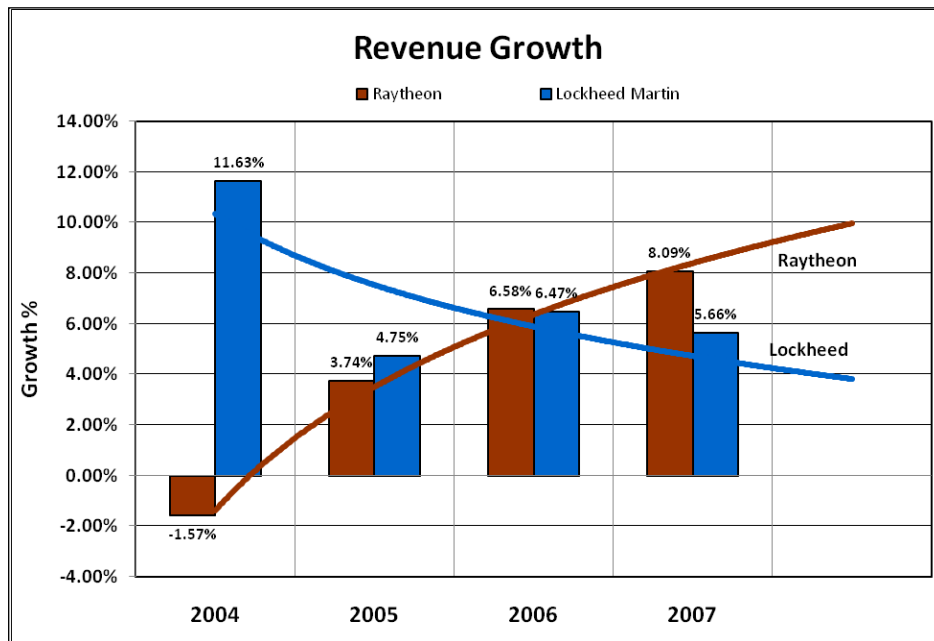


Raytheon Company Financial Analysis

Raytheon is an eighty-six year old aerospace and defense company that employs over 72,000 people world wide. The company specializes in the development of advanced technology for defense and homeland security. Sales were \$21.3 billion in 2007. Raytheon is the fourth largest defense company in the United States, and fifth largest in the world. It is the world's largest defense electronics company and world's largest missile manufacturer. One of Raytheon's biggest competitors is Lockheed Martin. With 140,000 employees and sales of \$41.9 billion in 2007, Lockheed Martin is the world's largest defense company and competes domestically with Raytheon in the area of defense electronics.

Revenue Growth

Raytheon's revenue growth percentage has been better overall then Lockheed Martin's.

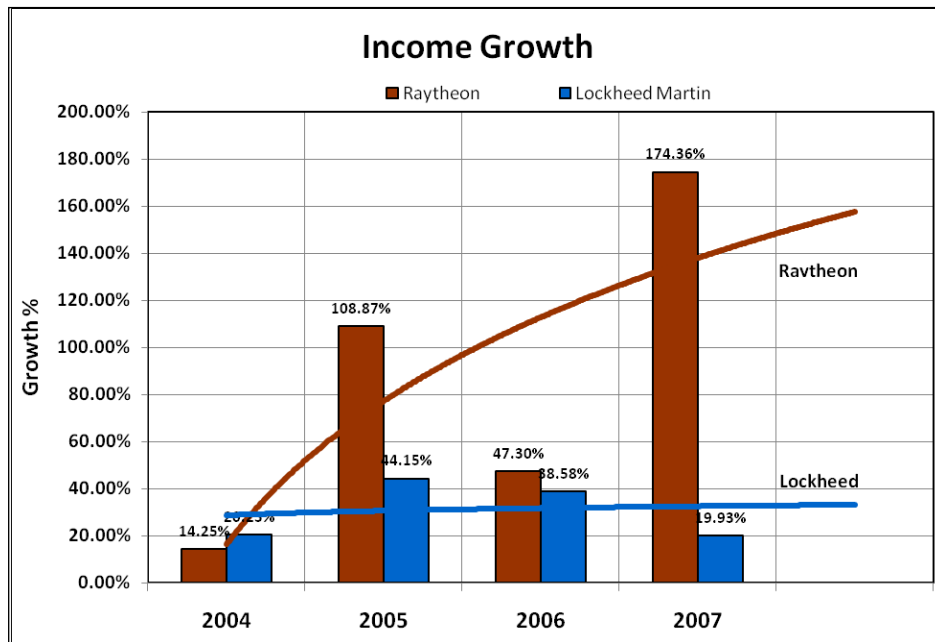


Raytheon's revenue growth has steadily increased over the past four years, starting with slightly negative growth from 2003 to 2004, and ending with just over 8% from 2006 to 2007. This is partly due to an increase in foreign sales. Raytheon has expanded over the past four years acquiring UTD, Inc. (a science and engineering company) in 2005, Virtual Technology Corp. (VTC – system software and engineering) in 2006, and Oakley Systems (a data-leak prevention company) in 2007. Lockheed Martin has had positive revenue growth over the past four years, with an exceptionally large increase of over 11% in 2003 to 2004. Acquisitions made by Lockheed have been: Sippican Holdings Inc. (naval electronics) in 2004; The SYTEX Group Inc. (information technology and technical support), STASYS Ltd. (network communication, defense interoperability, simulation, and air traffic management), INSYS Group Ltd. (communications,

weapons, and advanced analysis), and Coherent Technologies Inc. (laser-based remote sensing) in 2005; Savi Technologies Inc. (Radio-Frequency Identification technology), Pacific Architects and Engineers Inc. (PAE – facilities operations and maintenance), HMT Vehicles Ltd. (wheeled vehicles), Aspen Systems (records management and business processes), and ISX Corporation (research and development) in 2006; and Management Systems Designers Incorporated (an information technology company), 3DSolve Inc. (simulation based learning tools), and PercepTek Inc. (advanced software) in 2007. If the current trend continues, Raytheon will continue to increase its revenue growth, and Lockheed’s growth will remain positive but will decrease.

Income Growth

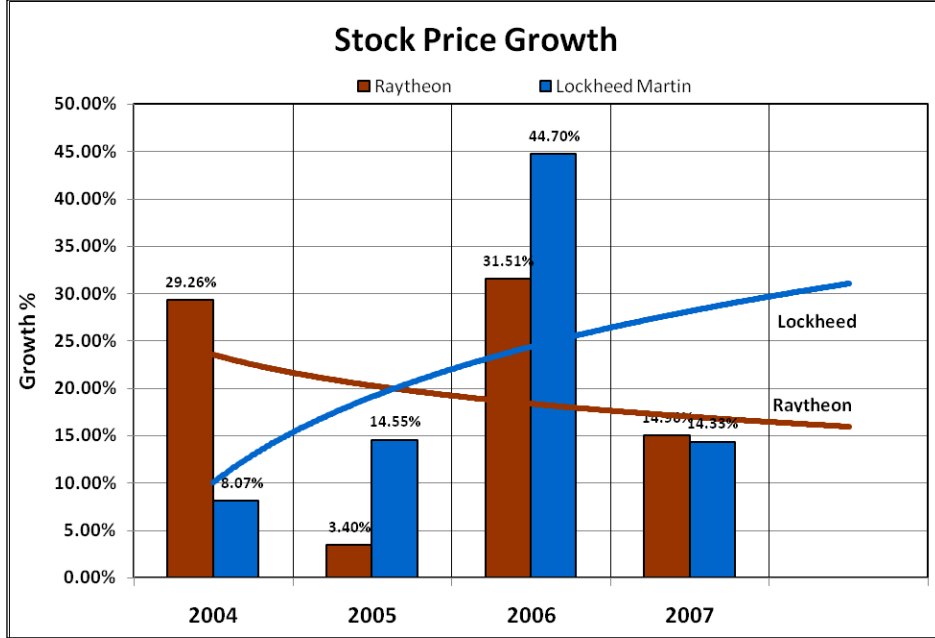
Raytheon has outperformed Lockheed Martin in growth of income. Raytheon has had positive



income growth over the past four years. The company has had from about 14% growth for 2003 to 2004, to almost 175% for 2006 to 2007, but their growth rate has been unpredictable year-over-year. Lockheed Martin has had more consistent income growth ranging from 20% to 44% over the past four years. Raytheon’s income growth has beaten Lockheed Martin’s three out of the past four years. The trend, though, indicates increasing income growth for Raytheon, whereas Lockheed remains relatively flat.

Stock Price Growth

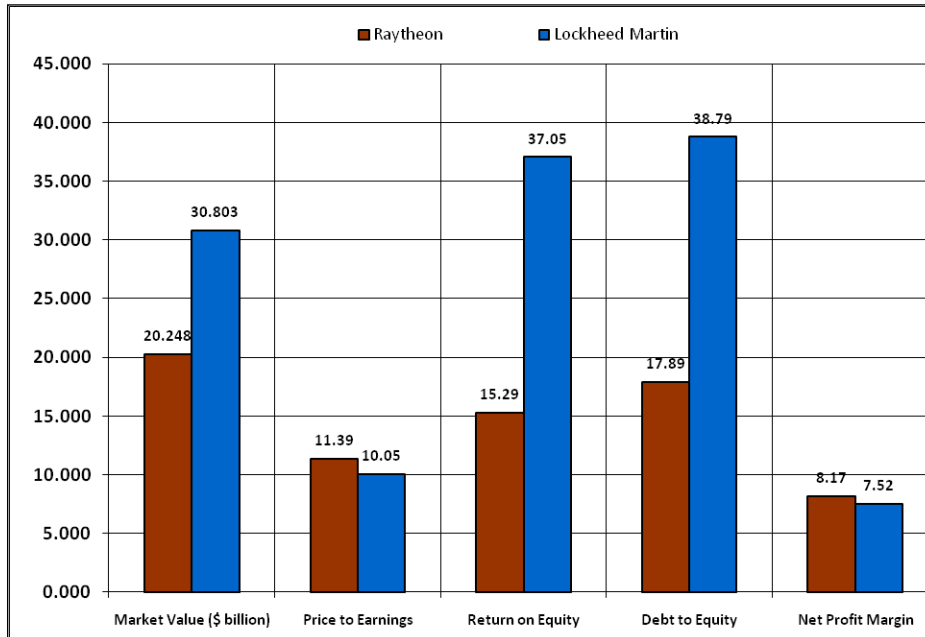
Raytheon hasn't fared well versus Lockheed Martin in stock price growth. Raytheon's stock has



risen over the previous four years, although very sporadically. Lockheed Martin's stock has had more consistent growth, with the exception of 2005 to 2006 where the stock price increased almost 45%. The current trend is for Lockheed's stock to grow at an increased rate, while Raytheon's stock price will grow but the rate of growth will decrease.

Market Value

Raytheon's market value, a little over \$20 billion, is much smaller than Lockheed Martin's at almost \$31 billion. Lockheed Martin produces major weapon's systems (military aircraft and



ships) that can bring in billions of dollars in sales with one contract. Raytheon doesn't manufacture major weapon's systems, but produces subsystems and weapons that go into the major systems that Lockheed Martin (and others) build.

Price to Earnings Ratio

Lockheed Martin has a better price to earnings ratio than Raytheon. Raytheon's price to earnings ratio is higher than the industry and sector averages, at 11.39, but beats the S&P 500 average. Lockheed Martin has a better price to earnings ratio than Raytheon, just over 10, and is also higher than the rest of the industry and sector. Both company's have been aggressively paying down debt and buying back stock over the past few years, which can have an impact on their price to earnings, return on equity, and debt to equity values.

Return on Equity

Raytheon's return on equity is dwarfed by Lockheed Martin's. Raytheon's return on equity is 15.29, which bests the industry and the sector. The S&P 500 average is higher at 19.09. Lockheed Martin's return on equity is more than double Raytheon's, at just over 37. Raytheon's leadership has been stable over the past four years, with the only changes being the head of the Space and Airborne Systems in 2005 and the head of Raytheon Technical Services in 2007. On the other hand, Lockheed has had four changes: the head of Aeronautics in 2005, the head of Space Systems in 2006, and the heads of Electronic Systems and IS&S in 2007 (the latter being a consolidation of the IS&S and I&TS divisions).

Total Debt to Equity

Raytheon has a much more impressive debt to equity ratio than Lockheed Martin. In 2004, Raytheon began reducing its debt. Between 2004 and 2007, the company has reduced its debt by over \$5 billion. In 2007, Raytheon used \$1.7 billion from the \$3.3 billion sale of its aircraft unit for debt reduction. In conjunction with solid company earnings, both Moody's and Fitch Ratings raised the company's debt rating to BBB+ in 2007. The company's debt to equity stands at 17.89. Lockheed Martin's debt to equity is more than twice as high, at 38.79. The company had focused on debt reduction up to 2004 (\$6.8 billion between 1999 and 2004), and since 2004 has focused on share repurchase and increasing dividends. Lockheed's debt rating was raised by Fitch Ratings from BBB+ to A- in 2006.

Net Profit Margin

Raytheon beats Lockheed Martin when it comes to net profit margin. Raytheon's net profit margin is more than double both the industry and the sector, but is lower than the S&P 500. Lockheed Martin's is lower than Raytheon's, but is still over twice the industry and sector.

The Bottom Line

Raytheon's revenue growth is positive and has steadily increased year-after-year, whereas Lockheed's is positive but not increasing. Raytheon's income growth is positive and also increasing as opposed to Lockheed's positive growth but flat year-after-year increase in its rate of growth. Lockheed's stock is growing, and the trend is an increase in the rate of growth, but Raytheon's stock, although growing, is trending towards a lower growth rate. Lockheed's market value is much bigger than Raytheon's. But, it relies on major weapon's systems which can be reduced or cut when the economy is down and/or a new administration takes over the White House. Raytheon's smaller and more diverse systems are platform independent, and the loss of a contract doesn't have as big an effect. Lockheed has a slightly better price to earnings ratio, but more than doubles Raytheon's return on equity. On the other hand, Raytheon has less than half of Lockheed's debt to equity, and has a slightly better net profit margin. Both companies would be a good investment, however, Raytheon would be the better investment because it is more diversified in smaller systems and doesn't depend on as many single, multibillion dollar contracts.

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