



RTX CORPORATION: STRUCTURAL DOMINANCE, OPERATIONAL DISCONNECT

Investment Analysis of the Post-2025 Aerospace & Defense Landscape

\$88.6B

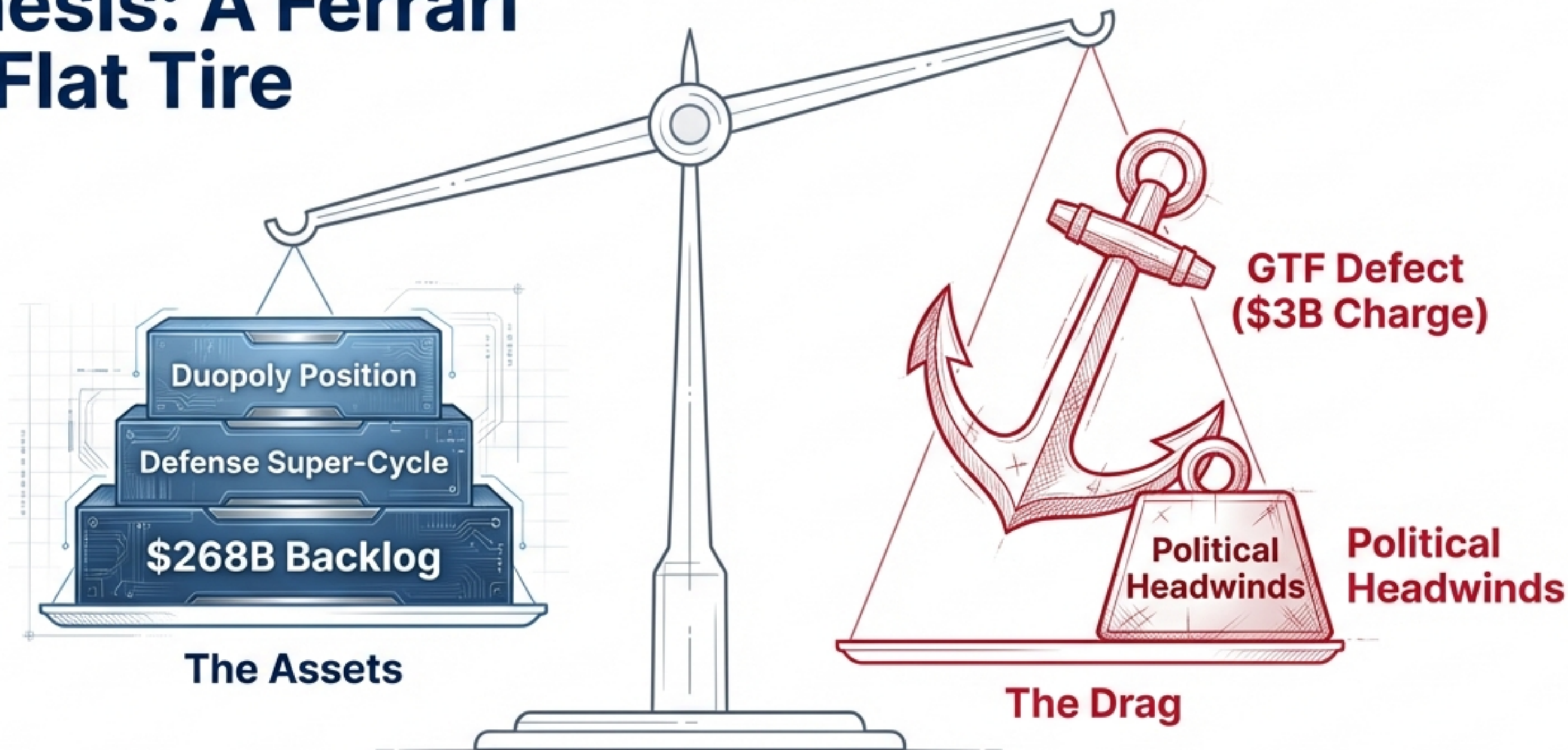
2025 Adjusted Sales

\$268B

Record Backlog

Read-Only Investment Memo | Institutional Review

The Thesis: A Ferrari with a Flat Tire



The Good

Record \$268B Backlog provides 3 years of revenue visibility. Unmatched defensive moat.

The Bad

Operational crisis: \$3B GTF Charge. ROIC of 5.7-8.5% lags pure-play peers.

The Opportunity

Trading at 18-20x P/E vs Peers at 30x+. Is this a value trap or a buying window?

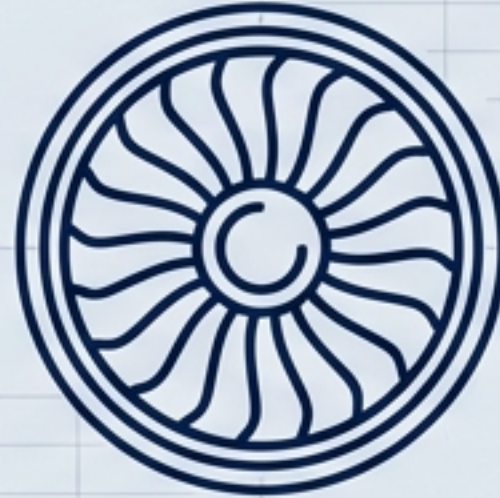
The Empire: Three Pillars of Defense & Aerospace



\$30.2B Sales

16.2% Margin 

The Spec-In King.
Content on 115,000
aircraft worldwide.



\$32.9B Sales

8.3% Margin 

The Propulsion Duopoly.
90,000 engines in service.



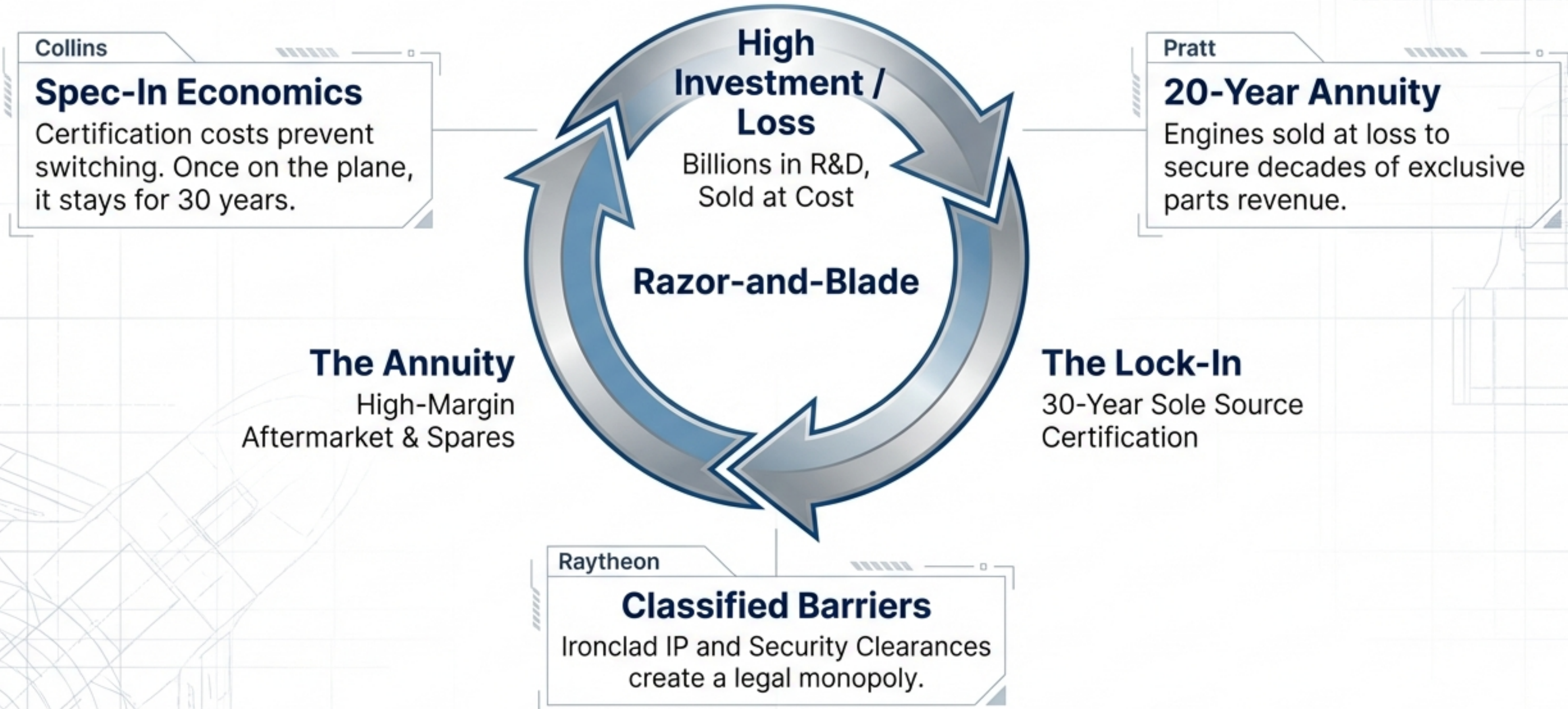
\$28.0B Sales

11.5% Margin 

The Defense Shield.
\$75B Defense Backlog.

Consolidated 2025 Free Cash Flow: \$7.9B

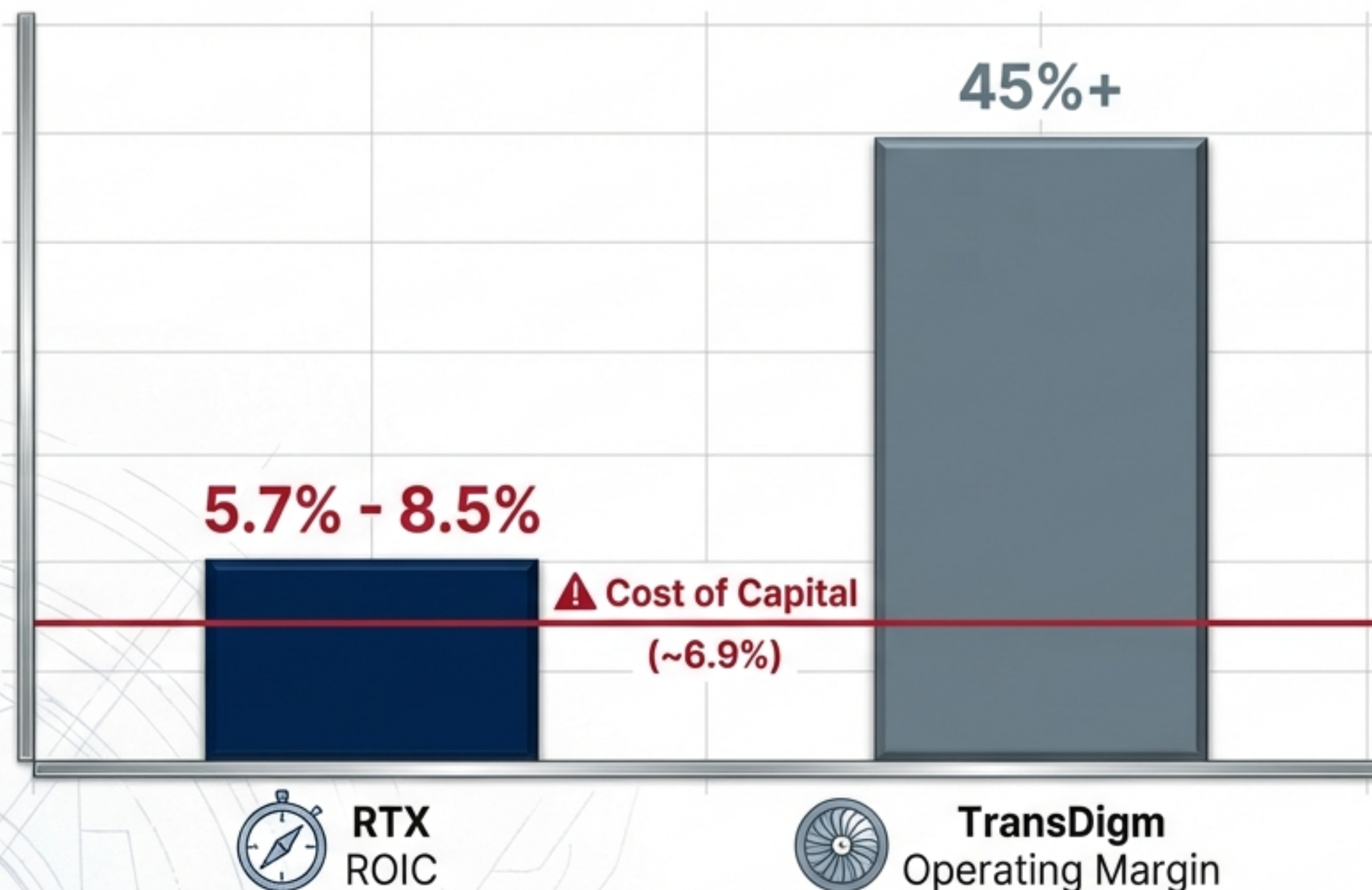
The Theoretical Moat: Why Entrants Can't Compete



"Barriers to entry are insurmountable, yet profitability lags."

The Disconnect: Moat Width vs. Financial Returns

A wide moat should yield superior returns. RTX is failing this test.



Chronic operational missteps and legacy fixed-price contract losses have trapped a magnificent business in mediocre performance.

The gap between RTX's potential and its actual return on invested capital represents the investment opportunity.



RTX
ROIC

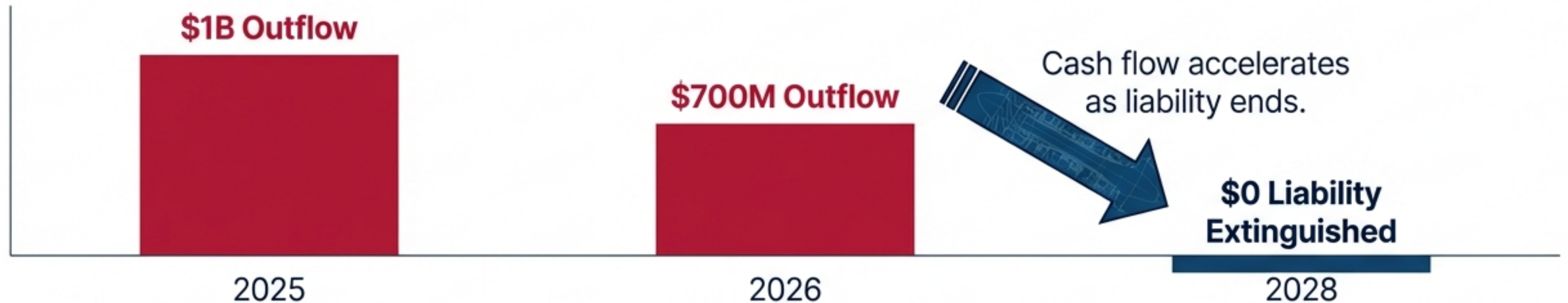


TransDigm
Operating Margin

The Crisis: Pratt & Whitney GTF Powder Metal Defect



Declining Cash Drag (The Investment Signal)



Commercial Aftermarket: The 'Aging Fleet' Cash Flywheel



+18%

2025 Commercial Aftermarket Growth

>800

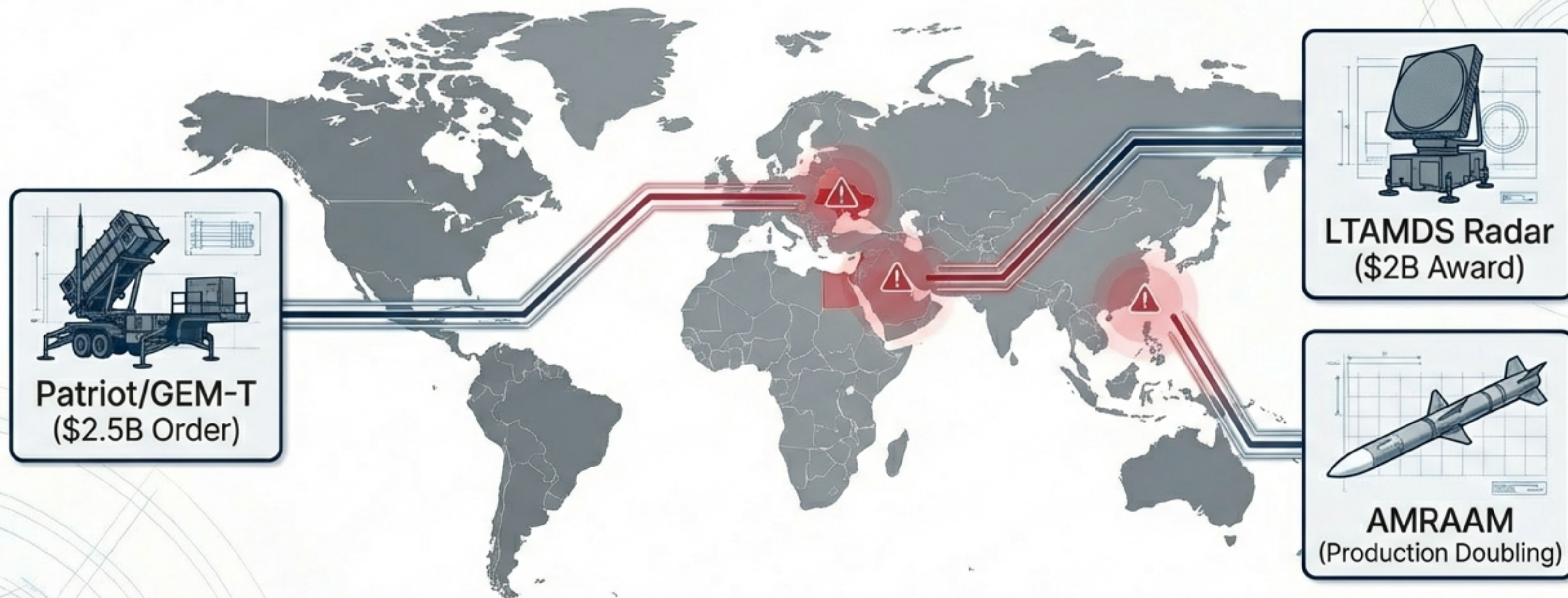
V2500 Shop Visits in 2026

+200bps

Expected Margin Expansion

Supply chain fragility is a massive aftermarket tailwind.

Defense Super-Cycle: The \$107B Shield



Total Defense Backlog:
\$107B



Book-to-Bill Ratio:
1.43 (Demand > Supply)



International Orders:
47% (High Margin)

The Constraint: Converting Backlog to Revenue



Solution



\$10.5B Total Investment (2026)

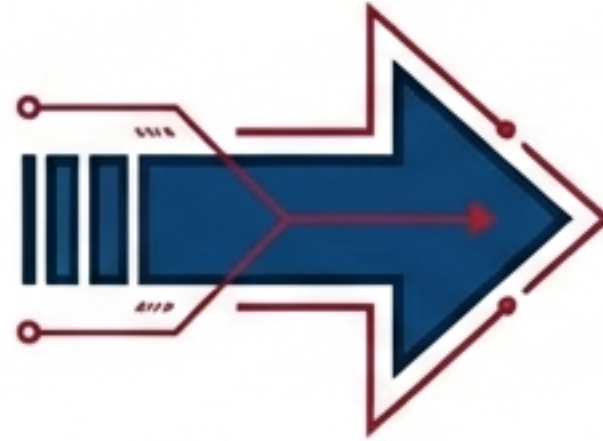
\$3.1B Pure CapEx (Factories & Automation)

- Redstone Expansion (\$115M)
- Camden Facility (\$1.2B Contract)
- Goal: Quadruple Tomahawk Production

Political Headwinds: DOGE & Executive Orders



Jan 2026 Executive Order



Share Buyback

Risk: Executive Order threatens to block dividends/buybacks for “underperforming” contractors.

DOGE Audits: \$11B in initial efficiency cuts targeting overhead.

Forced Capital Allocation Shift: Shareholder Returns -> CapEx Capacity Expansion

Quote: “Defense primes are being coerced to prioritize capacity over capital returns.”

Governance: The 'Lawyer Engineer'



REPORT CARD

Subject: Chris Calio (CEO)

Background: Lawyer / Strategist

Crisis Management: A A

Transparent on GTF, took **\$3B** charge upfront.

Capital Allocation: D D

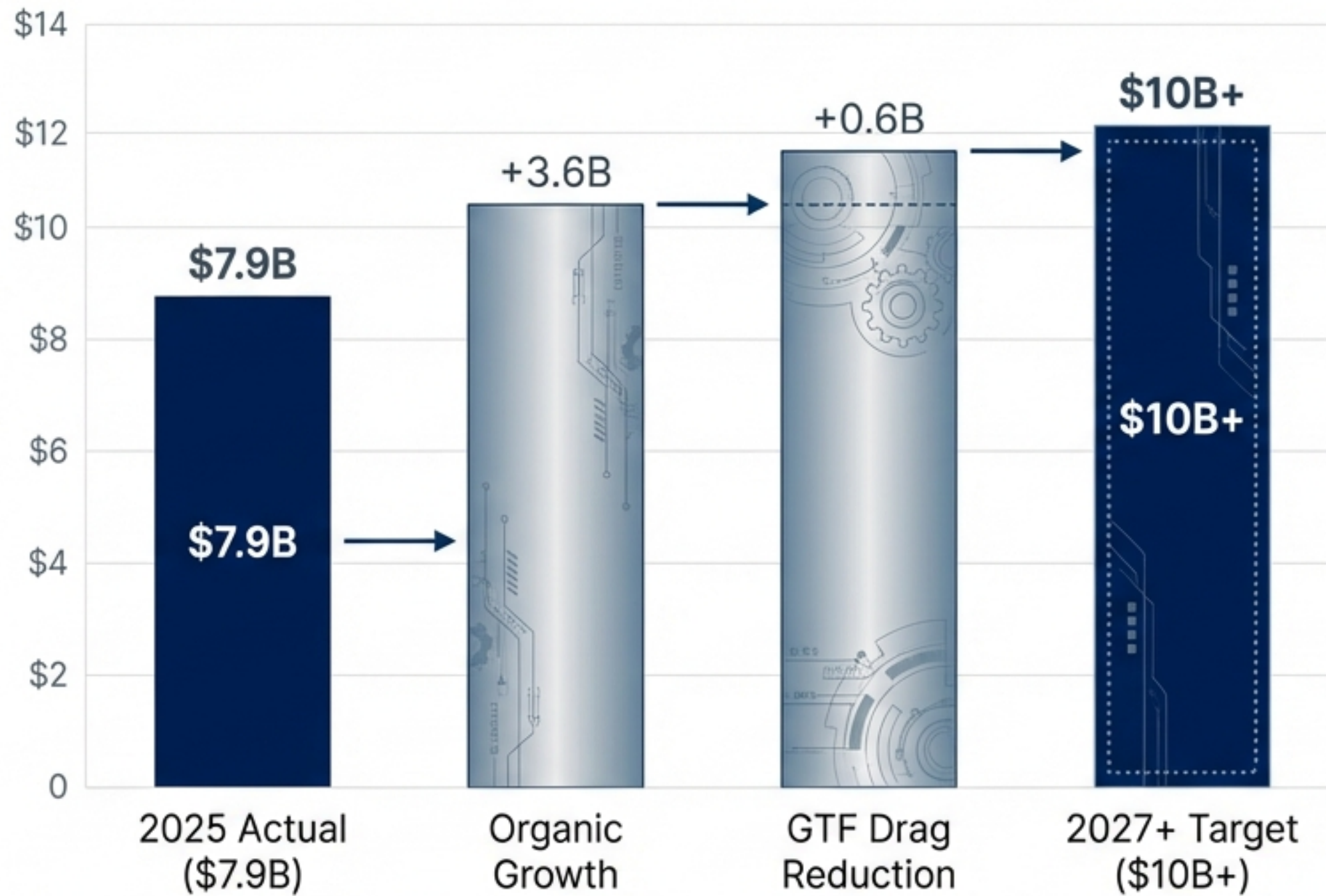
2023 Debt-funded buyback was value destructive.

Current Strategy: B+ B+

Deleveraging & Investing in Factory Capacity.

Incentives Aligned: Executive Pay tied to ROIC and Free Cash Flow.

Financial Outlook: The Path to \$10B Free Cash Flow



2026 Guidance

- Sales: \$92.0 - \$93.0 Billion
- Organic Growth: 5-6%
- Free Cash Flow: ~\$8.5 Billion

As GTF cash drag (\$700M) ends and CapEx normalizes, **baseline FCF exceeds \$10B.**



Valuation: The Conglomerate Discount



The Market Penalty:
RTX is priced for the
GTF crisis.

The Thesis: If ROIC
improves, the multiple
expands toward peer
levels.



Scenario Analysis: Bull vs. Bear

The Bull Case

- Backlog conversion is inevitable (**\$268B**).
- Aftermarket is a cash annuity.
- GTF fix is on track; cash drag ends 2028.
- Valuation gap closes toward GE Aerospace levels.

The Bear Case

- GTF Advantage fails; airlines switch to CFM LEAP.
- Legacy fixed-price contracts bleed margins.
- Government (**DOGE**) caps profits, turning Defense into a regulated Utility.



The Verdict: A Capital-Intensive Turnaround



Summary: A “Self-Help” story. Market sees the “Flat Tire” (GTF) but ignores the “Ferrari” (Backlog).



The Play: High floor due to defense backlog; high ceiling if margins expand.



Call to Action: A discount opportunity for patient capital.

WATCH ITEMS:

1. Monitor ROIC progression.
2. Track **GTF AOG** (Aircraft on Ground) reduction.