

A Work Project, presented as part of the requirements for the Award of a Master's degree in
Finance from the Nova School of Business and Economics.

General Title:

NAVIGATING TURBULENCE IN THE RAYTHEON TECHNOLOGIES MERGER

Individual Subtitle (MARC WELKE – 59940):

MARKETS IN MOTION: SHAREHOLDER AND MARKET RESPONSES

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Reading observations for jury: The knowledge cut-off date for this case study is April 03, 2020, the day United Technologies Corporation, Light Merger Sub Corp and Raytheon Company merged.

Group work abstract

In 2019, United Technologies Corporation and Raytheon Company merged, creating a major aerospace and defence giant. The goal was to balance the volatility of commercial sales with the stability of defence contracts while innovating in areas like hypersonics and AI. However, merging two industry giants was not easy. They faced strict regulatory hurdles, had to address shareholder concerns, and managed to finalize the deal despite turbulent headwinds of the pandemic. The UTC-Raytheon merger exemplifies the complexities in modern mergers and acquisitions, illustrating how visionary goals must navigate the harsh realities of execution and market dynamics in the business world.

Individual work abstract

The merger between United Technologies Corporation and Raytheon Company triggered dynamic shareholder and market reactions, reflecting both enthusiasm and resistance. Activist investors, including Bill Ackman and Daniel Loeb, voiced concerns over valuation, strategic rationale, and potential shareholder dilution, influencing market sentiment. Stock price fluctuations during the announcement period highlighted the sensitivity of investor confidence to corporate decisions. By assessing price trends and investor influence, the analysis provides insights into the broader implications of corporate consolidation in volatile financial environments.

Keywords: Merger & Acquisition, Merger of Equals, Shareholder Activism, Strategic Diversification, Synergies, Risk Management, Case Study

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Part A: Case Study

GENERAL PART

“Greg Hayes was a busy man last summer. The chief executive of United Technologies was finalising a \$30bn acquisition of the avionics specialist Rockwell Collins while also plotting a break up of his US industrial conglomerate by spinning off other businesses. Then he received a call. On the phone was Tom Kennedy, his counterpart at Raytheon, the defence group and one of the top five prime contractors to the Pentagon. Would he consider a merger between Raytheon and the aerospace businesses of UTC? The timing was not ideal but the proposal was.” (Pfeifer and Waldmeir 2019)

For Hayes, the idea of a merger with Raytheon wasn't entirely new. *“This had been on our radar screen . . . for a decade or more,”* he remarked after announcing the deal (Pfeifer and Waldmeir 2019). While the timing was challenging, the opportunity to combine two complementary A&D giants was very promising because the merger offered a perfect alignment of strengths. UTC sought the stability of defence contracts to balance the cyclical nature of its commercial aerospace business, while Raytheon aimed to leverage UTC's advanced technologies, such as avionics and propulsion systems, to gain a foothold in the commercial sector. Together, the two envisioned creating a diversified aerospace and defence powerhouse capable of leading in both markets.

Despite the promising strategic reasons for the merger such as significant synergies, cutting-edge innovation in technology, and the potential to become a leading force in a rapidly changing industry, the path forward was filled with challenges. UTC was deeply involved in a massive restructuring because it was integrating a \$30 billion acquisition, all while spinning off two other major parts of their business. On top of this, the uncertainty of the global economy added a layer of risk that could affect the timing and ultimate

success of the merger. While the move was bold and aligned with the long-term visions of both companies, it was stepping into a future full of unknowns.

United Technologies Corporation

In 1929, Frederick Renschler, founder of Pratt & Whitney, proposed a bold idea to his key client William Boeing, founder of Boeing Airplane and Transport Corporation. He suggested a consolidation of the two companies, combining his aircraft engine manufacturing business with Boeings airplane manufacturing business and the subsequent start of operating an airline together, which was put into practice in 1929 by creating the “*United Aircraft and Transport Corporation*” (United Technologies Corporation, n.d.). However, this merger was undone only 5 years later in 1934 due to the Air Mail Scandal, which forbid airplane operators and manufacturers to be owned by the same company. Through this split, the “*United Aircraft Corporation*” was formed consisting primarily of Pratt & Whitney. During the 85 years since then, the company evolved and grew massively, finally becoming the “*United Technologies Corporation*” (UTC) after the acquisition of Carrier and Otis. Today, UTC is a manufacturer of aircraft engines and aerospace systems for commercial and defence customers, as well as building systems and includes four key business units: Otis, Carrier, Collins Aerospace Systems (in 2018 UTC acquired Rockwell Collins and merged it with its UTC Aerospace Systems Segment to form Collins Aerospace Systems) and Pratt & Whitney. Otis specializes in the manufacturing of elevators, escalators, moving walkways, and related services (Otis Elevator Company, n.d.). Carrier provides heating, ventilating, air conditioning (HVAC), and refrigeration systems, along with building automation, and fire and security technologies products (Carrier Global Corporation, n.d.). Collins Aerospace Systems is a manufacturer of systems and components for commercial and business aviation, military & defence, helicopters, space and airports (Collins Aerospace, n.d.). Pratt & Whitney is engaged in

designing, developing, producing and maintaining a wide range of aircraft engines for commercial, military, business jet and general aviation customers (Pratt & Whitney, n.d.).

In 2018, UTC had total sales of \$66.5 billion, which are relatively evenly divided as 29% of sales are from Pratt & Whitney, 25% are from Collins Aerospace Systems, 19% are from Otis and 28% are from Carrier (SEC 2018b). The company mainly serves civilian customers, which is why only 14% of total sales were military-related sales in 2018 (SEC 2018b). Currently, the backlog stands at \$119.4 billion, with \$21.7 billion attributed to Otis and Carrier, stretching out nearly a decade into the future (SEC 2018b).

Recently, UTC decided to focus on their core business, which is the aerospace segment including Collins Aerospace Systems and Pratt & Whitney and thus wants to spin off Otis and Carrier to become a pure player in the aerospace industry. The potential merger with Raytheon complements this vision by integrating UTC's strengths in advanced avionics and engines with Raytheon's expertise in defence systems. UTC's leadership views the opportunity of a merger with Raytheon as a transformative opportunity to strengthen its position as a leader in both commercial and defence aerospace sectors, aligning with its long-term goal of diversifying revenue streams and focusing on innovation. The merger would create a resilient business model that balances the cyclicity of commercial aerospace with the stability of government contracts while unlocking opportunities for innovation and growth.

Raytheon Company

In 1922, on the third floor of an old, tenantless building near the Massachusetts Institute of Technology in Cambridge, Raytheon Company, originally known as the American Appliance Company, was founded (Raytheon Company 2022). The breakthrough innovation that later gave the company its name and its success was a tube that made it possible to operate radios from the socket instead of relying on batteries and was named Raytheon. Based on this

groundbreaking invention, the company developed further products such as the microwave oven and the microwave radar and increasingly specialized in military applications. Today, Raytheon specializes in defence technologies and systems and is divided into two business units: Raytheon Intelligence & Space (RIS) and Raytheon Missiles & Defence (RMD). RIS develops integrated sensor and communication systems, cyber and software solutions, and electronic warfare systems, while RMD specializes in designing and producing integrated air and missile defence systems, naval and undersea sensor solutions, and advanced combat solutions, such as precision-guided munitions and hypersonic weapons (Raytheon Company, n.d.).

In 2018, Raytheon had total sales of \$27.1 billion, which are evenly divided as 47% of sales are from RIS and 53% are from RMD (SEC 2018a). Both RIS and RMD serve as prime contractors or major subcontractors on numerous programs with the U.S. Department of Defence, NASA, and international governments and approximately 81% of total sales in 2018 were military sales to the U.S. government (including foreign military sales through the U.S. government) (SEC 2018a). The current backlog stands at \$42.4 billion (SEC 2018a) and stretches several years into the future.

For Raytheon, the merger represents a strategic opportunity to expand its presence in the commercial aerospace market and create a more balanced entity while leveraging UTC's advanced aerospace technologies and a shared R&D division to enhance its defence capabilities, a vision strongly championed by the company's leadership.

Industry and market overview

The aerospace and defence (A&D) industry has long been a cornerstone of both U.S. economic growth and national security. By 2018, the sector was generating over \$929 billion in revenue, supporting more than 2.5 million jobs and establishing the U.S. as a dominant

force in both commercial aerospace and defence markets (Aerospace Industries Association 2019). This leadership is built on a combination of government-backed defence initiatives and the rapidly expanding global demand for commercial aircraft. Behind the scenes, the sector's growth is driven by more than just cutting-edge technologies - it is also shaped by its unique market dynamics, high barriers to entry, and increasingly complex supply chains. At the heart of this dynamic industry are two distinct yet interconnected segments: the commercial aerospace sector, which serves global airlines, and the defence sector, which is heavily influenced by U.S. and global defence spending. In recent years, the commercial aerospace market has seen robust expansion, largely driven by a growing middle class in emerging markets and a global push for fuel-efficient aircraft. As of 2018, the production backlog for aircraft orders remains strong, which reduces the business' cyclical nature, with air traffic continuing to rise above the historical average of 5.5% (DeNicolò, Matthews, and Buck 2018). The industry's profitability, however, is not immune to global macroeconomic shifts, facing several headwinds such as political & trade uncertainties and tariffs imposed on essential materials like aluminium and steel. Major commercial aerospace companies are now under pressure to optimise operations and further verticalize their supply chains to mitigate these risks. In parallel, the defence sector is also undergoing transformation. Historically, U.S. defence contractors have benefitted from significant government spending, with the fiscal year 2019 defence budget projected to increase by 3% to \$606 billion (DeNicolò, Matthews, and Buck 2018). The U.S. government's focus on military modernization, including missile defence, space capabilities, and cybersecurity, has driven demand for advanced defence systems. U.S.-based contractors like Raytheon, Lockheed Martin, and Northrop Grumman are the primary beneficiaries of these initiatives, particularly given the government's preference for American-made technology and the barriers created by regulatory requirements.

What makes the A&D industry especially unique is the significant barriers to entry. For commercial aerospace, companies like UTC have adopted a *"razor-and-blade"* business model (Pershing Square Holdings, Ltd. 2018). This model relies on selling high-value equipment, such as aircraft engines, at or near breakeven prices, while generating significant profits through decades of aftermarket sales of spare parts and services. Aircraft engines, for instance, require continuous servicing, creating a reliable long-term revenue stream for companies that dominate this space. The defence sector follows a similar pattern. Once contractors establish relationships with government clients, the high costs of switching providers, coupled with strict regulatory and security requirements, make it incredibly difficult for new entrants to break into the market. This results in an industry dominated by a few key players who hold long-term government contracts and have well-established technological expertise.

By early 2019, one of the most striking developments within the A&D sector is the wave of consolidation reshaping the competitive landscape. A&D companies are increasingly turning to mergers and acquisitions to scale up, improve operational efficiency, and secure control over their supply chains (DeNicolo, Matthews, and Buck 2018). This trend is particularly pronounced in the defence industry, where the growing complexity of military systems, combined with cost pressures from government clients, has pushed contractors to seek efficiencies through vertical integration.

As of early 2019, the outlook for the aerospace and defence industry remains positive, driven by global defence modernization efforts and robust demand for commercial aircraft. However, trade uncertainties, rising production costs, and potential budget constraints in defence spending present challenges that industry players will need to manage carefully (DeNicolo, Matthews, and Buck 2018). To remain competitive, companies will need to continue investing in next-generation technologies such as artificial intelligence, cybersecurity, and autonomous

systems, while streamlining operations and managing increasingly complex global supply chains. Despite these challenges, the industry's high barriers to entry, long-term government contracts, and growing demand for technologically advanced products ensure that aerospace and defence companies will remain vital players in the global economy for years to come.

Timeline of events

2015	UTC sold the Sikorsky helicopter business to Lockheed Martin Corp
2016	UTC successfully defended against a takeover bid from Honeywell International Inc
September 5, 2017	Rockwell Collins was sold to UTC
November 26, 2018	Completion of Rockwell Collins acquisition and announcement of Otis and Carrier spin-offs
June 8, 2019	Merger rumour date
June 9, 2019	Merger announcement
	...continuing on page 21

Merger overview

In early June 2019, whispers began circulating through the A&D industry about a potential landmark deal. Speculation intensified when "*a person familiar with the matter*," hinted that United Technologies Corporation, which was just planning to spin off its non-aerospace divisions, was possibly preparing to join forces with Raytheon Company, a major defence contractor. On June 8, the rumour mill buzzed, drawing the attention of analysts and stakeholders alike and within 24 hours, the whispers turned into reality: UTC and Raytheon announced a historic all-stock merger of equals (Roumeliotis and Brumpton 2019).

“On June 9, 2019, United Technologies Corporation, or UTC, Light Merger Sub Corp., a wholly owned subsidiary of UTC, or Merger Sub, and Raytheon Company, or Raytheon, entered into an Agreement and Plan of Merger, or the merger agreement, pursuant to which, subject to approval of UTC shareowners and Raytheon stockholders and the satisfaction or (to the extent permitted by law) waiver of other specified closing conditions, the UTC aerospace businesses and Raytheon will combine in an all-stock merger of equals.” (SEC 2019b). Accordingly, the merger itself was accomplished through the formation of a new UTC subsidiary established for the purpose of creating a merger entity, Raytheon Technologies, in which UTC and Raytheon could merge (Exhibit 1) (SEC 2019b).

A fixed exchange ratio deal intended to create a combined company in which the post-merger ownership structure consisted of 57% UTC shareholders and 43% RTX shareholders, corresponding to an exchange ratio of 2.3348 (SEC 2019b). UTC planned to issue approximately 648 million shares of UTC common stock to Raytheon shareholders as part of the merger (SEC 2019b). Furthermore, as part of this transaction, United Technologies had to divest its two non-aerospace and defence divisions, Otis Corp (OTIS) and Carrier Corp (CARR) and distribute them to its shareholders in a tax-free manner (SEC 2019b). UTC's shareholders received half a share of Otis and one share of Carrier for every UTX share they hold, marking the end of UTX as an independent entity (Cornell 2020).

The required spin-offs marked a strategic shift of UTC to move from a conglomerate, comprising of an elevator, air conditioning and aerospace business, towards a *“pure play”* aerospace & defence company after completing the merger with the military company Raytheon. The resulting *“platform-agnostic A&D company with a diversified portfolio”* (Exhibit 2) offered a wide array of products and services across various platforms and markets in both the defence and commercial sectors, achieving 2018 revenues of \$69 billion, positioning it just behind major industry rivals like Boeing and Airbus. Furthermore, the

proposed UTC-Raytheon merger was noted to be the biggest ever in the sector (Exhibit 3). As shown in Exhibit 4 United Technologies estimated 2019 sales would decrease due to the spin-offs of its Carrier and Otis units. Still, a merger with Raytheon was expected to nearly restore the lost revenue, bringing sales back to approximately \$75.4 billion (Exhibit 4). This suggested the merger would effectively offset the financial impact of the spin-offs, maintaining the company's overall revenue.

Synergies from the United Technologies and Raytheon merger were projected to exceed \$1 billion in pre-tax cost savings within four years, resulting in a net of over \$500 million after accounting for integration costs. The combined entity aimed to achieve these significant savings through supply chain efficiencies, corporate consolidations, and technological integration. Additionally, Raytheon Technologies planned to leverage its substantial R&D investments, which included approximately \$8 billion in 2019, across seven R&D Centres of Excellence with a workforce of around 60,000 engineers and 38,000 patents, to drive innovation, capture new market opportunities, and potentially realise further revenue synergies (RTX 2019).

Taking over as CEO of Raytheon Technologies was Greg Hayes, former CEO of United Technologies who called the mega-merger an *"innovative cash machine"* and mentioned that the beauty of the deal was a merger of equals with no premium. *"By bringing these two companies together, we get access to Tom's pristine balance sheet and an A rating on the debt. And with that flexibility, we can return \$18 to 20 billion to our shareowners over the next three years. That's about double they would have gotten with us as a standalone."*(RTX 2019)

GENERAL PART

Timeline of events

June 9, 2019	Merger announcement
June 9, 2019	Bill Ackman sends a letter to UTC CEO Greg Hayes, expressing concerns following a report about merger talks
June 17, 2019	UTC CEO Greg Hayes responds to the accusations against him and the merger
June 28, 2019	Daniel Loeb, through his hedge fund Third Point, criticises strategic rationale of deal
August 05, 2019	Pershing Square Holdings - Ackman's hedge fund - announces the exit from its investment in UTC
August 13, 2019	Third Point announces a reduction in its investment in UTC
October 11, 2019	Shareholder approval of UTC and Raytheon - transaction is expected to close in first half of 2020
January 8, 2020	The Common Market for Eastern and Southern Africa (COMESA) Competition Commission (CCC) has approved the transaction
January 2020	Turkey's Competition Authority (CA) has approved the transaction
March 13, 2020	The transaction is cleared by the European Commission (EC), conditional on the divestiture of a remedy package
March 26, 2020	The US Department of Justice (DoJ) clears the transaction on condition to divest Raytheon's military airborne radios business and UTC's military global positioning systems (GPS) and large space-based optical systems businesses. Canada's Competition Bureau approved the transaction.
March 30, 2020	The transaction has received all the necessary regulatory approvals and is expected to close on 03 April 2020
April 3, 2020	The spin-offs of Carrier and Otis are completed
April 3, 2020	The transaction has completed. United Technologies' name has changed to Raytheon Technologies Corporation, and its shares of common stock will begin trading on the NYSE under the ticker symbol RTX

Source: Mergermarket – RTX deal

INDIVIDUAL PART: Marc Welke

Markets in motion: shareholder and market responses

Shareholder activism

The announcement of the merger between UTC and Raytheon was met with notable opposition from activist investors, raising substantial concerns about the deal's strategic and financial justification. While analysts expected limited hurdles from antitrust regulators due to the minimal overlap between United Technologies and Raytheon's businesses, investor opposition quickly became the biggest challenge to the deal (Deveau and Clough 2019).

"I hope that this is simply fake news as it does not seem consistent with the Greg Hayes we know." (Ackman 2019) was the ending of Mr. Ackman's strongly worded email on June 09, 2019, to Mr. Hayes, the CEO of UTC. Bill Ackman is a well-known activist investor, who held a \$700 million stake in UTC through his hedge fund Pershing Square Holdings. He expressed his opposition to the leaked rumours about a merger announcement between UTC and Raytheon in his email, highlighting several key concerns. First, he believed that merging the two companies would reintroduce a conglomerate discount, counteracting the benefits of UTC's planned spinoffs of Otis and Carrier, which would have unlocked shareholder value. Concerning this, he questioned the intention of a diluting stock acquisition deal of UTC using the currently massively undervalued UTC stock. Next, he stated that Raytheon's business is of inferior quality compared to UTC's aerospace unit because of the reliance on volatile defence budgets and lower long-term growth prospects and thus concluded that the merger would only make sense for Raytheon but not for UTC (Ackman 2019). Ackman urged the board to reconsider and made very clear that *"If the company intends to go forward with such a transaction, we will oppose it, publicly if necessary, as we expect will the substantial majority of the company's shareholders"* (Ackman 2019).

On June 17, 2019, at the Analysts and Portfolio Managers Meeting at the Paris Air Show, Greg Hayes responded to the accusations of empire-building and the broader criticism of the proposed merger in an interview. He firmly rejected the notion that the merger is motivated by personal ambition, stating: *“I think it’s absolutely wrong. I mean let’s - first of all, if I was going to be an empire builder, I’m not sure I would have sold Carrier, I’m not sure I would have sold Otis, I probably wouldn’t have sold Sikorsky, we probably wouldn’t have sold Hamilton Sundstrand industrial units”* (Thomson Reuters Streetevents. UTX - United Technologies Corp & Raytheon Co Analysts and Portfolio Managers Meeting at the Paris Air Show 2019). Hayes highlighted UTC’s strategic focus over the last five years, emphasizing that the company’s efforts have been aimed at refining the portfolio to concentrate on its core markets and customers.

In his letter to the UTC Board on June 28, 2019, Daniel Loeb further criticised the rationale of the merger and described the deal as *“ill-conceived and unlikely to create value for UTC shareholders”* (Loeb 2019). Loeb is another prominent activist investor, who held an \$835 million stake in UTC through his hedge fund Third Point. In this letter, he outlined five key criticisms of the merger: First, he argued that there is no clear strategic rationale for the deal, highlighting the lack of meaningful synergies and arguing that Raytheon brings little valuable technology to UTC. Second, he criticised the valuation because UTC is issuing stock at a significant discount, which undervalues the aerospace division and destroys shareholder value. Based on Third Point’s estimation of \$115 per share for UTC RemainCo, the proposed valuation of approximately \$80 per share (based on Raytheon's closing price of \$186 and Raytheon shareholders’ 43% share in the merged entity) would be heavily discounted. Third, Loeb pointed to the lack of financial rationale, suggesting the deal could be dilutive and that cost synergies are insufficient to justify the transaction. Fourth, he warned that the timing is poor, introducing execution risk during UTC’s breakup and Rockwell Collins integration.

Finally, Loeb criticised the management's poor track record, suggesting that *"Since there is no strategic or financial rationale for this transaction, we can only conclude that the merger was motivated by empire building and Mr. Hayes' desire to extend his already long overdue tenure as head of a Fortune 100 Company"* (Loeb 2019). Loeb echoed Ackman's warning, urging the board to re-consider the merger, and made it very clear that Third Point will vote against the merger and is convinced that many other shareholders will do so too (Loeb 2019).

Pershing Square Holdings, led by Mr. Ackman, announced the exit from its investment in UTC in a press release on August 05, 2019 and disclosed that all shares were sold on June 10, 2019 (Pershing Square Holdings 2019b). The company initially invested in UTC, believing that separating the conglomerate into three businesses would unlock significant shareholder value. However, when UTC announced the merger with Raytheon and Ackman strongly opposed the transaction, the merger nonetheless proceeded. Thus, Ackman stated: *"Although we could have run a campaign to block the transaction over the next six or more months, our loss of confidence in management would have also required us to engage in a more comprehensive battle to replace the company's leadership, and perhaps a portion of the board"* (Pershing Square Holdings 2019a). Finally, he chose to sell Pershing Square's position with a modest 3% gain, rather than engage in a prolonged activist campaign to block the deal and replace management.

Following Pershing Square Holdings' exit announcement, Loeb's hedge fund Third Point revealed a 7% reduction in its investment in UTC in its 13-F filing published on August 13, 2019, selling 480,000 shares during the second quarter, which ended on June 30, 2019 (Herbst-Bayliss 2019). Like Pershing Square Holdings, Third Point strongly supported UTC's efforts to unlock shareholder value by separating its businesses into three standalone entities but also signalled discontent with the planned merger with Raytheon. Third Point most probably reduced its holdings because UTC did not respond to the public criticism

accordingly. However, no public statement from Third Point or Loeb regarding this action was ever published. Despite this, Third Point maintained a significant stake in UTC, with the company still comprising around 10% of its portfolio, holding 6 million shares valued at \$781 million (SEC 2019a).

Market reaction

Exhibit 10 and Exhibit 11 show the stock prices of both UTC (UTX) and Raytheon (RTN) during the merger announcement and subsequent events, which were influenced by both market sentiment and shareholder activism.

When rumours of the merger began circulating on June 8, followed by the official announcement on June 9, the market responded immediately. UTX's stock began to decline, dropping from \$78 to \$73 in the following days. This decline coincided with the first event of shareholder activism by Bill Ackman in the form of an email to UTC's CEO, opposing the merger. The timing of the drop suggests that Ackman's public criticism may have amplified investor concerns about the merger's impact on UTC's value. Meanwhile, Raytheon's stock price initially showed a different response, rising slightly from \$186 to \$187, before reversing its direction and falling to \$177 by June 12. The decrease in stock prices was reversed when UTC CEO Greg Hayes responded to the criticism against himself and the deal rationale as stock prices climbed to \$77 and \$184 for UTX and RTN respectively by June 24. On June 28, Daniel Loeb, through his hedge fund Third Point, sent a letter to UTC's board outlining his opposition to the deal. Following the letter, UTX's share price increased from \$77 to \$78, while RTN's stock dropped from \$174 to \$171. However, the most striking moment of shareholder activism came with the exit of Pershing Square and the partial sell-off by Third Point. On August 5, Ackman's hedge fund Pershing Square announced its complete exit from its position in UTC. While the press release disclosed that the shares had been sold earlier on

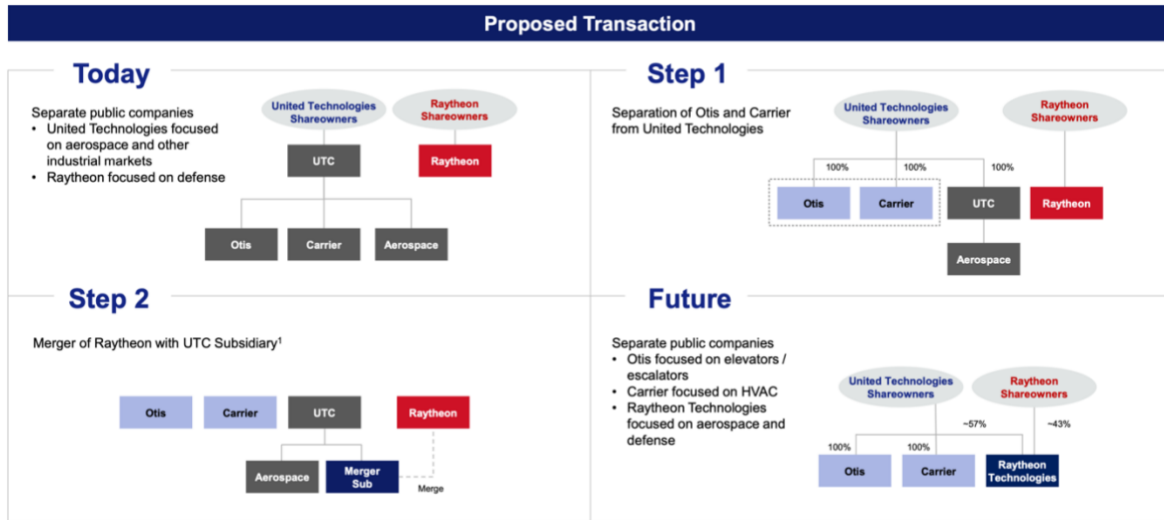
June 10, the announcement itself coincided with a rally in both UTX and RTN stock prices. UTX climbed from \$75 to \$78, and RTN rose from \$180 to \$188. Contrarily, the disclosure of Loeb's hedge fund Third Point on August 13, stating that it had reduced its holdings in UTC, corresponded to declines in UTX and RTN stock prices, with UTX falling from \$76 to \$73 and RTN dropping from \$184 to \$179.

By the end of the activism period, both UTX and RTN stocks were trading below their early June levels, highlighting the ongoing uncertainty about the merger. While various factors influenced these price movements, the market's reaction reflects how quickly investors adjusted to new information, whether originating from activist opposition or broader concerns about the merger's complexities.

Why was the deal done if no or little value was created and the environment was far from ideal?

EXHIBITS

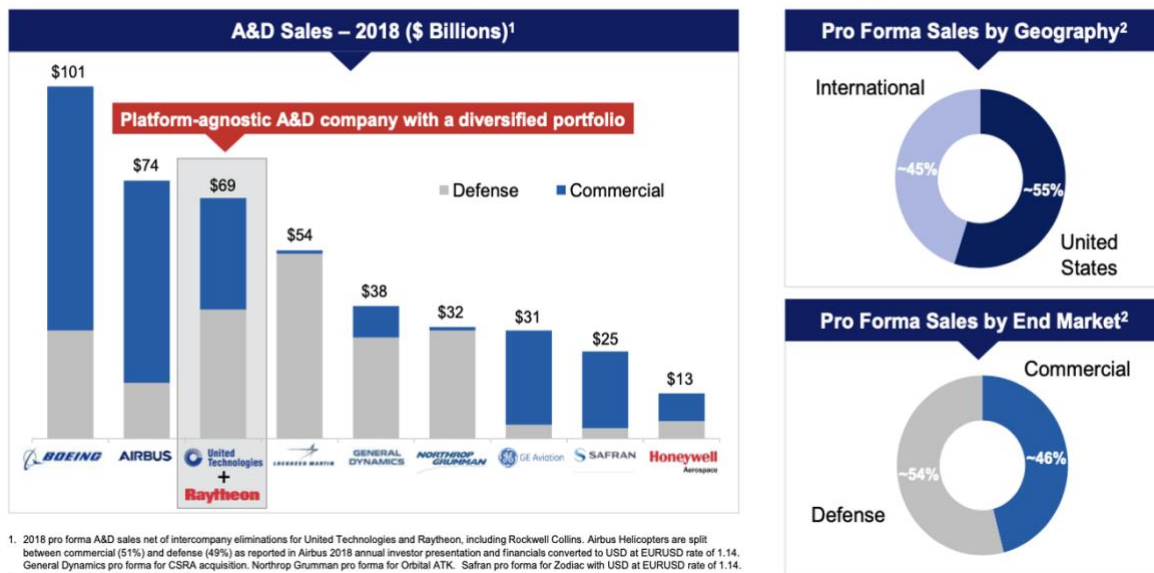
Exhibit 1. Transaction overview



Source: RTX 2019

Exhibit 2. Diversification within the A&D industry

Balanced Across Aerospace & Defense Segments



Source: RTX 2019

Exhibit 3. Previous takeovers in the sector

Go Big or Go Home

A United Technologies-Raytheon merger would be the biggest ever aerospace and defense deal. Here are the previous largest U.S. takeovers in the sector:

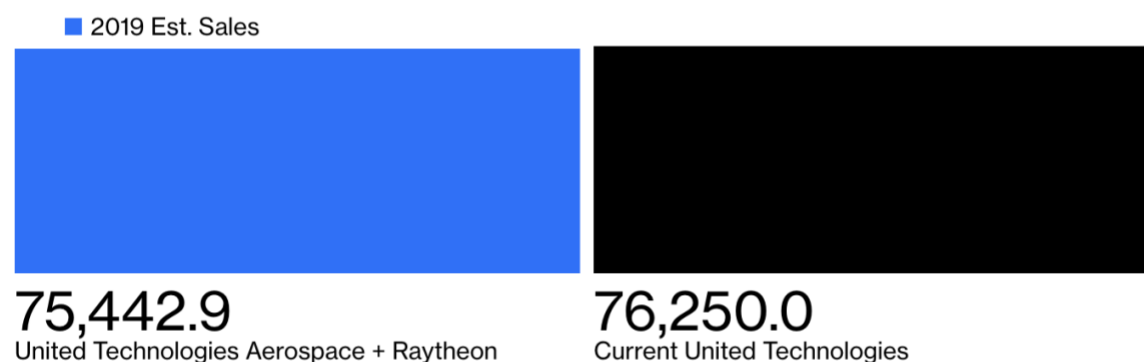
	Target Name	Acquirer Name	Announced Total Value ▼
2017-09-05	Rockwell Collins Inc	United Technologies Corp	\$29.5MB
2018-10-14	L3 Technologies Inc	Harris Corp	19.6M
2011-09-21	Goodrich Corp	United Technologies Corp	18.0M
1996-12-16	McDonnell Douglas Corp	Boeing Co/The	15.5M
2002-02-22	TRW Space & Mission Systems	Northrop Grumman Corp	13.7M
1994-08-30	Lockheed Corp	Martin Marietta Corp	10.0M
2017-09-18	Orbital ATK	Northrop Grumman Corp	9.2M
2015-07-20	Sikorsky Aircraft Corp	Lockheed Martin Corp	9.0M
2016-10-23	B/E Aerospace Inc	Rockwell Collins Inc	8.1M
1999-05-17	Gulfstream Aerospace Corp/DE	General Dynamics Corp	5.7M
2000-12-21	Litton Industries Inc	Northrop Grumman Corp	5.1M

Source: Bloomberg 2019b

Exhibit 4. 2019 estimated sales pre- and post-merger

The Same, But Different

A Raytheon merger would replenish the revenue United Technologies is losing via the spinoffs of its Carrier and Otis units



Source: Analyst estimates, Bloomberg, United Technologies

NOTE: United Technologies revenue for its current portfolio is based on the midpoint of its forecast range of \$75.5 billion to \$77 billion of sales in 2019.

Source: Bloomberg 2019b

Exhibit 5. 2019 estimated sales pre- and post-merger

Pro Forma Financial Profile

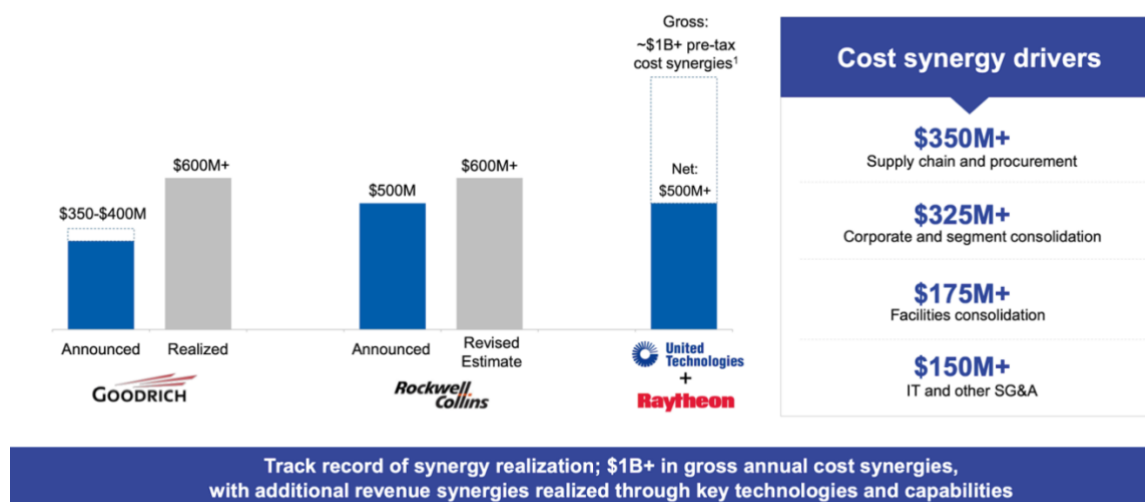
Pro Forma 2019E^{1,2}

	United Technologies	Raytheon	United Technologies + Raytheon
Sales³	~\$44.7B	~\$28.9B	~\$73.6B
Operating Profit⁴	~\$5.8B	~\$3.5B	~\$9.3B
Operating Margins⁴	~12.9%	~12.2%	~12.6%
EBITDA⁵	~\$8.0B	~\$5.4B	~\$13.5B
Free Cash Flow⁶	~\$3.2B	~\$2.8B	~\$6.0B
Net Debt	~\$24B	~\$2B	~\$26B

1. Pro forma 2019 estimates based on current outlook provided by each company; excludes Otis and Carrier
2. Figures exclude pro forma synergies
3. Net of intercompany sales eliminations
4. Reflects business segment operating profit and margins net of eliminations
5. Excludes non-operating pension income/(expense)
6. Excludes one-time costs associated with United Technologies portfolio separation

Source: (RTX 2019)

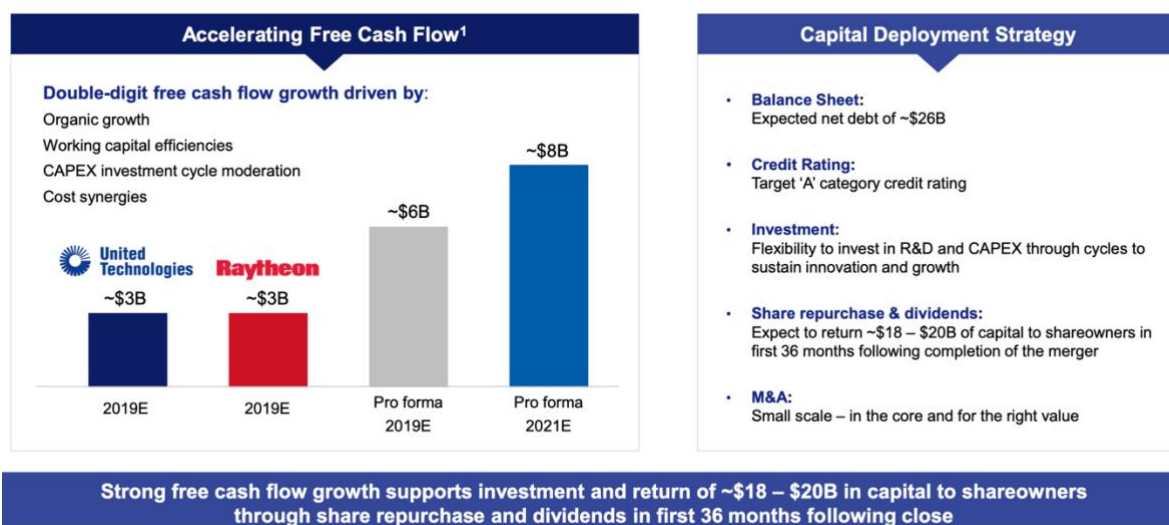
Exhibit 6. Value creation through cost synergies



Source: (RTX 2019)

Exhibit 7. Robust free cash flow generation

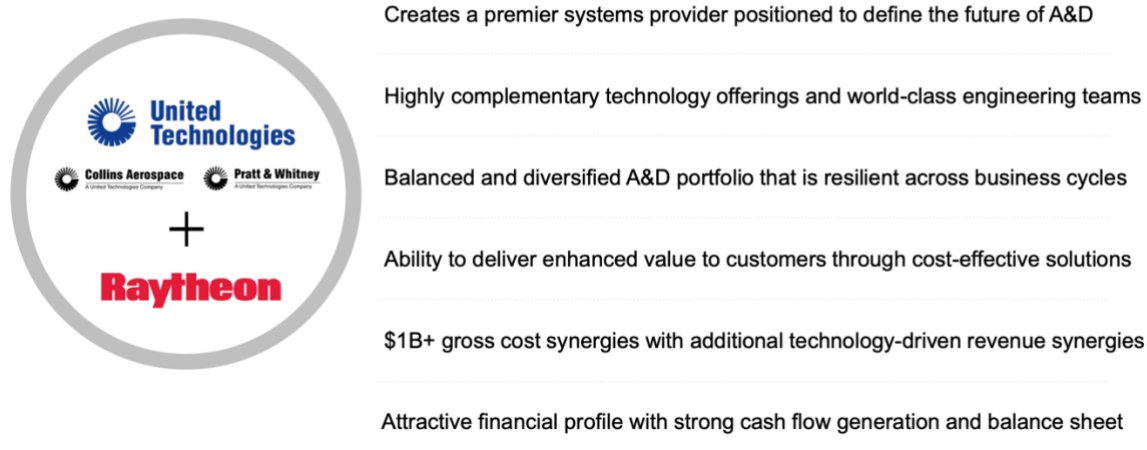
Robust Free Cash Flow Generation



Source: (RTX 2019)

Exhibit 8. Strategic rationale

Strategic Rationale



Source: (RTX 2019)

Exhibit 10. Initial market reaction and shareholder activism impact

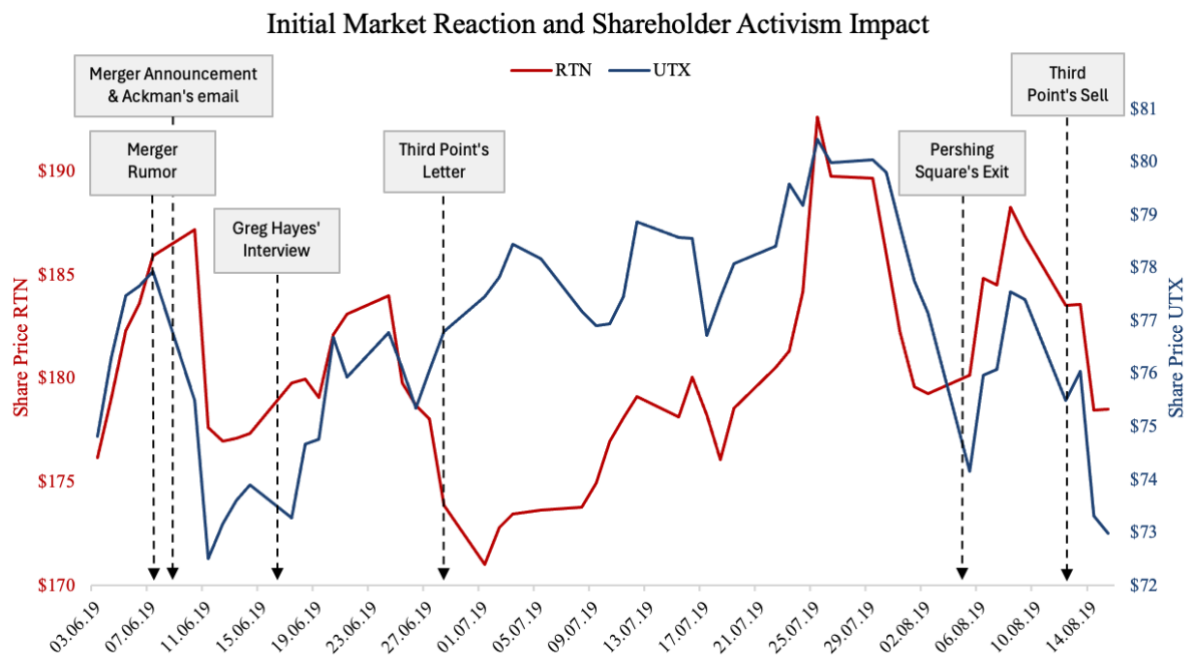
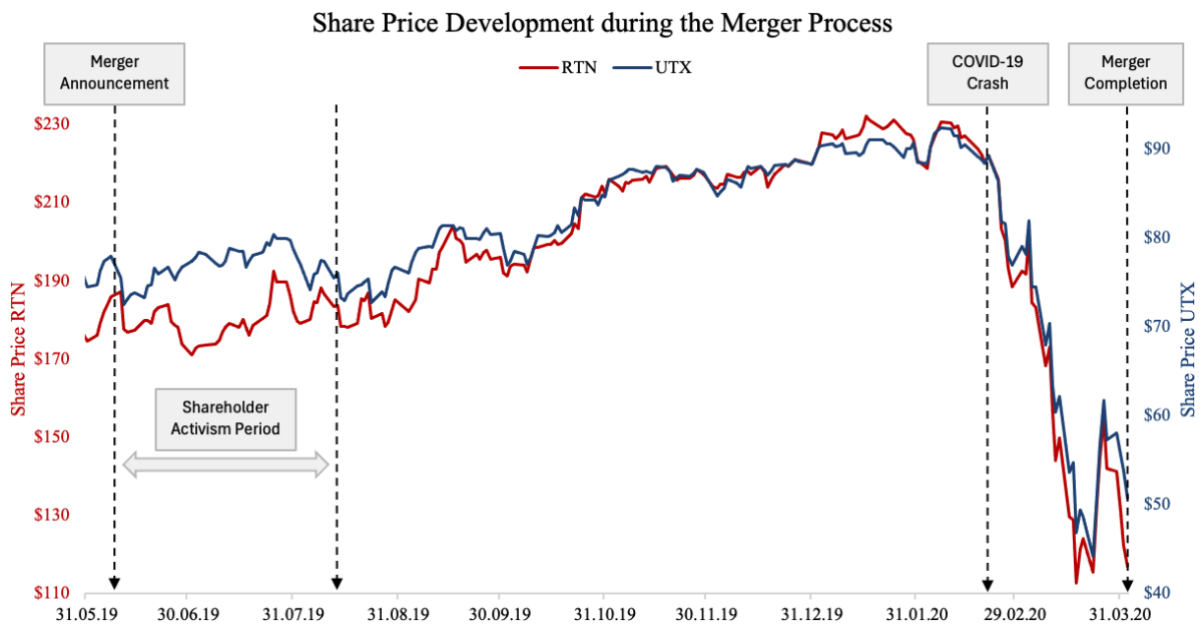


Exhibit 11. Share price development during the merger process



APPENDIX:

Appendix 1. United Technologies Corporation Consolidated Income (in \$mm)

	2013*	2014*	2015*	2016*	2017*	2018*
Revenue	61.074	62.879	61.342	62.319	66.274	75.166
Revenue RemainCo	31.781	33.074	32.655	33.575	36.121	43.340
Revenue Carrier	16.809	16.823	16.707	16.851	17.812	18.922
Revenue Otis	12.484	12.982	11.980	11.893	12.341	12.904
COGS	43.356	44.184	43.876	44.796	49.069	56.220
Gross Profit	17.718	18.695	17.466	17.523	17.205	18.946
Operating Expenses	8.035	8.083	7.297	7.815	7.735	8.936
Operating Income / (Loss)	9.683	10.612	10.169	9.708	9.470	10.010
Interest Expense	923	940	885	1.103	1.096	1.300
Other Non-Op. Income (Loss)	(17)	(25)	(15)	(184)	(427)	(715)
Abnormal Losses (Gains)	258	103	1.870	721	107	33
Pretax Income / (Loss)	8.519	9.594	7.429	8.068	8.694	9.392
Income Tax Expense (Benefit)	2.234	2.508	2.379	1.905	3.069	2.706
Extraordinary Gains (Losses)	(456)	(141)	(3.602)	9	-	-
Minority Interest	388	403	358	371	368	385
Net Income GAAP	6.353	6.824	8.294	5.783	5.257	6.301

Reference Items (in \$mm)

	2013*	2014*	2015*	2016*	2017*	2018*
D&A	1.912	2.045	2.115	2.215	2.539	2.882
D&A RemainCo	1.323	1.487	1.602	1.690	1.990	2.335
D&A Carrier	380	349	337	354	372	357
D&A Otis	209	209	176	171	177	190
EBITDA	10.542	11.516	11.024	10.691	11.905	12.800
EBITDA RemainCo					6.410	6.781
EBITDA Carrier					3.402	3.994
EBITDA Otis					2.093	2.025
CAPEX	(2.077)	(2.072)	(2.206)	(2.326)	(2.713)	(2.594)
CAPEX RemainCo	(1.689)	(1.757)	(1.862)	(1.892)	(2.254)	(2.159)
CAPEX Carrier	(266)	(228)	(261)	(340)	(326)	(263)
CAPEX Otis	(122)	(87)	(83)	(94)	(133)	(172)

*Rockwell Collins data fully consolidated to UTC in Q1 2019 and added manually for previous years. In addition, the company reports its fiscal year different to the calendar year. To account for that, Q4 2018 was extrapolated based on historical averages.

*For all subdivisions, Rockwell Collins is added to "RemainCo".

Source: Data derived from Bloomberg; own illustration

Appendix 2. United Technologies Corporation Consolidated Balance Sheet (in \$mm)

Assets	United Technologies Corporation*				Carrier	Otis
	2016**	2017**	2018	Q1 2019	Q1 2020	
Cash & Cash Equivalents and STI	7.497	9.688	6.152	6.240	768	1.207
Accounts Receivable	12.575	14.021	14.271	13.574	2.674	2.780
Inventory	10.643	12.332	10.083	10.474	1.556	599
Other ST Assets	1.325	1.577	4.997	5.114	970	928
Total Current Assets	32.040	37.618	35.503	35.402	5.968	5.514
Total Noncurrent Assets	65.373	77.299	98.708	101.978	16.033	4.010
Total Assets	97.413	114.917	134.211	137.380	22.001	9.524
Liabilities and Equity						
Accounts Payable	20.229	22.822	21.303	20.431	3.748	2.747
ST Debt	2.944	2.975	4.345	4.764	218	67
Other ST Liabilities	1.079	1.663	5.720	6.208	485	2.541
Total Current Liabilities	24.252	27.460	31.368	31.403	4.451	5.355
LT Debt	23.079	31.665	41.192	43.024	11.737	6.637
Other LT Liabilities	18.533	18.190	20.932	20.898	2.787	1.721
Total Liabilities	65.864	77.315	93.492	95.325	18.975	13.713
Total Equity	31.549	37.602	40.719	42.055	3.026	(4.189)
Total Liabilities & Equity	97.413	114.917	134.211	137.380	22.001	9.524
Enterprise Value (Estimate)***					35.795	16.973

*United Technologies Corporation financial data includes Carrier and Otis.

**Rockwell Collins data fully consolidated in FY 2018 and added manually for previous years.

***Estimate using comparables.

Source: Data derived from Bloomberg; own illustration

Appendix 3. Raytheon Consolidated Income Statement (in \$mm)

	2013	2014	2015	2016	2017	2018
Revenue	23.706	22.826	23.321	24.124	25.348	27.058
COGS	18.532	17.295	17.608	17.507	18.340	19.573
Gross Profit	5.174	5.531	5.713	6.617	7.008	7.485
Operating Expenses	2.170	2.308	2.611	2.444	1.435	1.519
Operating Income / (Loss)	3.004	3.223	3.102	4.173	5.573	5.966
Interest Expense	198	203	222	216	184	153
Other Non-Op. Income (Loss)	(17)	(7)	4	595	934	1.238
Abnormal Losses (Gains)	66	44	35	277	1.342	1.428
Pretax Income / (Loss)	2.757	2.983	2.841	3.085	3.113	3.147
Income Tax Expense (Benefit)	808	790	747	873	1.114	264
Extraordinary Gains (Losses)	(64)	(65)	(13)	(1)	(2)	1
Minority Interest	17	14	(3)	(31)	(23)	(27)
Net Income GAAP	1.996	2.244	2.110	2.244	2.024	2.909

Reference Items (in \$mm)

	2013	2014	2015	2016	2017	2018
D&A	445	439	489	515	550	568
EBITDA	3.449	3.662	3.591	4.688	6.123	6.766
CAPEX	(280)	(326)	(425)	(526)	(634)	(798)

Source: Data derived from Bloomberg; own illustration

Appendix 4. Raytheon Consolidated Balance Sheet (in \$mm)

Assets	2016	2017	2018	Q1-2019
Cash & Cash Equivalents and STI	3.094	3.400	3.608	2.093
Accounts Receivable	1.317	1.324	1.648	1.424
Inventory	725	594	758	882
Other ST Assets	6.179	6.008	6.123	6.557
Total Current Assets	11.315	11.326	12.137	10.956
Total Noncurrent Assets	19.423	19.534	20.533	20.620
Total Assets	30.738	30.860	32.670	31.576
Liabilities and Equity				
Accounts Payable	2.625	2.861	3.473	2.356
ST Debt	300	300	515	1.001
Other ST Liabilities	4.092	4.187	4.475	4.323
Total Current Liabilities	7.017	7.348	8.463	7.680
LT Debt	4.752	4.750	5.402	4.908
Other LT Liabilities	7.850	8.287	6.922	6.848
Total Liabilities	19.619	20.385	20.787	19.436
Total Equity	11.119	10.475	11.883	12.140
Total Liabilities & Equity	30.738	30.860	32.670	31.576

Source: Data derived from Bloomberg; own illustration

Appendix 5. Comparable Company Metrics*

Comparables	Ticker	Market Cap (in \$bn)	P/E	P/BV	EV/EBITDA	EV/EBIT	EV/Rev
Raytheon Corporation	RTN US	51,3	17,16x	4,32x	7,93x	8,66x	1,98x
BAE Systems PLC	BA/ LN	18,7	14,67x	2,65x	7,80x	9,80x	0,93x
General Dynamics Corp	GD US	45,4	13,77x	3,87x	10,95x	12,82x	1,58x
L3Harris Technologies Inc	LHX US	17,1	22,83x	5,15x	14,92x	18,36x	3,33x
Leonardo SpA	LDO	5,1	10,47x	0,98x	6,04x	13,92x	0,57x
Lockheed Martin Corp	LMT US	73,6	12,84x	52,78x	10,24x	11,86x	1,62x
Northrop Grumman Corp	NOC US	41,8	11,48x	5,10x	11,81x	14,31x	1,80x
SAAB	SAABB SS	4,6	27,31x	2,12x	12,60x	17,47x	1,18x
United Technologies Corporation	UTX US	65,6	10,02x	1,52x	13,33x	20,34x	2,07x
Airbus	AIR FP	74,6	21,31x	6,70x	6,36x	9,66x	0,72x
Curtiss-Wright Corp	CW US	4,4	16,01x	2,85x	10,19x	12,99x	2,01x
Dassault Aviation	AM FP	11,5	17,52x	2,35x	6,12x	6,83x	0,95x
General Electric Co	GE US	65,9	13,91x	2,13x	--	--	1,36x
HEICO Corp	HEI US	11,1	44,12x	7,97x	26,14x	31,50x	6,67x
Honeywell Int	HON US	96,4	14,35x	5,30x	13,03x	15,20x	2,44x
Howmet Aerospace Inc	HWM US	8,1	12,07x	1,48x	6,45x	9,26x	0,88x
L3 Harris Technologies Inc	LHX US	17,1	22,83x	5,15x	14,92x	18,36x	3,33x
Meggitt PLC	MGGT LN	4,7	20,30x	1,47x	10,71x	18,47x	2,28x
Moog Inc.	MOG/A US	3,0	24,30x	2,44x	12,07x	16,93x	1,38x
MTU Aero Engines Holding AG	MTX GR	9,4	18,27x	3,95x	11,94x	16,10x	2,03x
Safran S.A.	SAF FP	52,4	35,37x	3,83x	15,64x	25,20x	2,37x
Textron Inc	TXT US	10,8	13,66x	2,07x	8,02x	10,99x	0,93x
Thales Group	HO FP	24,9	22,08x	3,81x	10,36x	14,14x	1,19x
TransDigm Group Inc	TDG US	19,6	29,13x	--	17,06x	18,39x	7,99x
Woodward Inc	WWD US	5,0	22,07x	3,24x	16,85x	24,74x	2,64x

* All figures are based on FY 2018 financial data.

Source: Data derived from Bloomberg; own illustration

Appendix 6. Comparable Transaction Metrics

Target Company	Acquirer	Transaction Value (in \$bn)	Date	EV/EBITDA	EV/EBIT	EV/Rev
Raytheon Corporation						
Collins Aerospace	UTC	29,5	04.09.17	21,18x	27,31x	4,86x
Dassault Aviation SA	Dassault Group	1,0	28.11.14	17,55x	20,27x	2,16x
EADS	BAE Systems	5,0	12.09.12	9,50x	12,30x	1,70x
Esterline Technologies Corp	TransDigm Group	4,0	09.10.18	13,80x	21,86x	1,96x
L3 Technologies Inc	Harris Corp	19,6	13.10.18	14,57x	17,58x	1,95x
Wesco Aircraft Holdings Inc	Platium Equity	1,9	08.08.19	15,33x	19,88x	1,15x
United Technologies Corporation						
Avio Aero	GE	4,3	19.06.13	8,50x	--	--
Intelligrated	Honeywell	1,5	01.07.16	12,00x	--	--
KLX Inc	Boeing	4,2	01.05.18	14,09x	18,33x	2,29x
B/E Aerospace	Rockwell Collins	8,1	23.10.16	13,28x	15,42x	2,81x
Goodrich Corp	UTC	18,4	21.09.11	10,70x	--	--
Esterline Technologies	TransDigm Group Inc	4,0	09.10.18	13,80x	21,86x	2,50x

Source: Data derived from Bloomberg; own illustration

Appendix 7. NWC Cash Cycles: US Aerospace and Defence Industry Average

	2017	2018
Accounts Receivable / Sales	18,7%	21,0%
Inventory / Sales	22,4%	24,1%
Accounts Payable / Sales	10,0%	10,4%

Source: (Damodaran, n.d.)

Appendix 8. Key Financial Data FY 2018 (in \$ mm, unless stated otherwise)

	EPS ** (in \$)	# Shares (in mm)	Book Value	Share Price* (in \$)	WACC (in %)	Tax Rate (in %)
United Technologies Corporation	7,6	861	40.719	76,0	5,70%	21%
Raytheon Corporation	10,6	282	11.883	182,1	9,79%	21%
Combined Entity (for Cost Synergies)					8,56%	21%

* As of 29th of March 2019 (due to comparability to other valuation methods).

** UTC EPS incl. Carrier & Otis.

Source: Data derived from Bloomberg; own illustration

INDIVIDUAL PART: Marc Welke

ii. *Markets in motion: shareholder and market responses*

a. *Shareholder activism*

In a next step, the role and influence of activist investors in M&A deals can be discussed by examining the interventions in the UTC-Raytheon merger. This provides a practical opportunity to analyse the dynamics of shareholder activism, its impact on corporate governance, and its effects on merger outcomes. Recent findings (Lazard 2019) highlight the increasing prevalence of activism in M&A, with approximately 46% of activist campaigns in 2018 involving demands related to mergers and acquisitions. By incorporating these insights, instructors can show students the growing importance and influence of activist investors in shaping deal terms and strategic decisions. By the end of this discussion, students should have a comprehensive understanding of how activist investors can shape M&A outcomes, act as a check on managerial decisions, and evaluate arguments for and against activist involvement.

To introduce the topic, the instructor may use an interactive approach to actively engage students and make the concept of shareholder activism more tangible. The suggested format would be a debate simulation, where students are divided into two groups: one representing activist investors (such as Bill Ackman and Daniel Loeb) who opposed the UTC-Raytheon merger, and the other representing UTC management defending the deal. The activists should prepare arguments against the merger to oppose the deal, while the management group should prepare the strategic and financial benefits of the deal. The simulation can conclude with a class discussion on how the arguments reflect common themes in shareholder activism and M&A.

The discussion can then focus on the various tactics activist investors utilize to influence corporate strategy and M&A outcomes. Activists often use public campaigns and media channels to voice their concerns, rally other shareholders, and apply pressure on management.

In the UTC-Raytheon case, Ackman and Loeb raised public objections through letters and emails, questioning the merger's strategic and financial merits. Another tactic is proxy contests, where activists utilize shareholder voting rights to gain board seats or block deals. In the context of this case study, although no formal proxy fight was launched, the possibility of one added pressure on UTC's management to justify the merger. Additionally, activists may engage in direct negotiations with management to push for changes to deal terms or to halt the transaction, even when such discussions remain behind closed doors.

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- How do different activist tactics, such as public campaigns or proxy contests, affect corporate governance and decision-making during an M&A transaction?
- What risks and rewards are associated with engaging in a proxy contest versus using media campaigns to influence shareholder sentiment?
- How does activist opposition, even without a proxy contest, create pressure on management to change or justify deal terms?

Instructors can use this as a platform to discuss how activist investors act as a check on managerial overreach by introducing the concept of agency problems, which are linked to the principal-agent conflict. Here, the instructor can guide students to think critically about how activist investors balance the power dynamic between shareholders and management, especially when managerial motivations do not align with shareholder interests. It is useful to introduce important elements of behavioural finance, particularly managerialism and hubris, where executives may be driven by irrational motives of personal ambitions such as higher compensation, more prestige, or more control and power (Masulis, Wang, and Xie 2007) and defensive tactics such as empire building (Gorton, Kahl, and Rosen 2009). Especially in large-

scale mergers like the UTC-Raytheon deal, such behaviour can be observed regularly. Ackman and Loeb's accusations that CEO Greg Hayes was more interested in empire-building than shareholder interests underscore these issues, demonstrating the potential divergence between management's goals and those of shareholders. Hubris, the overconfidence in management's ability to create value through mergers, was also a central concern for the activists, who believed that UTC's leadership was overestimating the strategic benefits of the deal.

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- What motivations other than creating shareholder value might drive managers to pursue mergers and acquisitions?
- How does overconfidence or hubris impact managerial decision-making in large-scale M&A transactions?
- How can activist investors serve as a check on managerialism and prevent empire-building behaviours in M&A?

To extend the discussion, students should consider the outcomes and strategic implications of activist interventions in M&A. Here, the instructor can initiate a conversation by explaining that activist investors often prioritize maximizing short-term shareholder returns, potentially conflicting with the longer-term strategic goals of management. Research proves that, in the short term, the activist investors impact is mainly shareholder-focused, leading to immediate increases in market value and profitability. While, in the long term, these gains often come at a cost to other stakeholders, as seen through declines in operating cash flow, cuts in investment spending, and lower social performance (DesJardine and Durand 2020). However, proponents of activist investors argue that by holding management accountable and pushing for operational, financial, and governance reforms, activism can serve as an effective corporate governance

mechanism that ultimately creates substantial long-term value for firms and their shareholders (Goodwin et al. 2014). In the UTC-Raytheon case, the activists' opposition exemplifies this tension. Critics like Ackman and Loeb argue that by agreeing to the merger at a time when UTC's stock is perceived as undervalued, management may not be serving investor interests effectively, especially for those who bought the stock anticipating a value increase post-spinoffs. Their focus is short-term oriented, trying to maximise shareholder returns through the spin-offs and ignoring the strategic long-term implications of the merger.

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- How does the emphasis on short-term shareholder value by activist investors influence the strategic objectives of major mergers?
- In what ways could the demands for immediate returns by activists affect the long-term success of a merger?
- What role can management play in addressing activist concerns while still pursuing long-term strategic objectives?
- How does opposition from activist's shape shareholder perceptions and potential outcomes of a merger?

Lastly, legal considerations play a significant role concerning shareholder activism in M&A deals. The use of proxy contests and shareholder rights reflects the legal power dynamics within corporate governance, where activists can use voting rights and shareholder proposals to challenge or influence M&A transactions. The instructor should highlight how, although the activists did not escalate the situation to a full-blown proxy fight, their ability to mobilize shareholder opposition showcased the power of voting rights and the potential for shareholder revolts. Consequently, the sole threat of a proxy contest can already be enough to push management to reconsider a merger or adjust the deal's terms to better align with shareholder

interests. Furthermore, regulatory factors such as disclosure requirements and limitations on activist actions can shape their strategies and the broader landscape of shareholder activism.

To conclude, these questions can help frame the discussion on legal considerations:

- What legal mechanisms can activists use to influence or challenge an M&A deal?
- What are the potential legal consequences for companies and activists when a proxy battle over a merger intensifies?
- In what ways might legal challenges from activist investors affect the timeline or terms of a merger?

b. Market reaction

The market reaction to the merger and its subsequent events offers an example of how stock prices can shift following a high-profile merger announcement, specifically helping students to understand the role of deal size, integration risks, shareholder activism and sector-specific dynamics in shaping market responses.

Overall, the market reaction illustrates the typical mixed response to large-scale mergers: UTX's (UTC) share price decline reflects concerns over possible integration complexity and share dilution, while RTN's initial rise followed by a drop shows investor enthusiasm tempered by the realities of merger execution. The movements in stock prices for both companies suggest a balance between optimism about the potential strategic benefits and concerns about the challenges inherent in merging two large players in the aerospace and defence sectors.

This pattern presents a teaching opportunity to discuss typical market reactions in mergers, especially in large-scale transactions, as well as the factors influencing investor sentiment in such deals. Through this case, students can explore the concept that acquirers often face a short-term decline in stock price due to anticipated costs and integration risks, whereas targets may initially experience an increase (Travlos 1987), reflecting investor expectations for a premium

or strategic advantage from the merger. Additionally, large-scale mergers like UTC and Raytheon's - especially within heavily regulated sectors like aerospace and defence - often magnify these typical market reactions (Ahern 2012). The complexity and scrutiny associated with deals in such industries can further impact stock price volatility, providing a valuable context for understanding the nuances of investor responses. Another key part of the discussion is also distinguishing between short-term and long-term investor perspectives. While short-term reactions may focus on immediate costs and challenges, long-term investors often look beyond initial market responses, assessing potential synergies and strategic fit over time. This can lead to contrasting investor sentiment, where some prioritize immediate valuation impact while others consider the longer-term benefits that the merger might deliver.

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- What factors typically contribute to a decline in the acquirer's stock price following a merger announcement? How does this apply to UTC (UTX)?
- Why might a target's stock, like RTN's, show an initial increase in value after a merger announcement?
- How do industry-specific factors, particularly in aerospace and defence, add to the complexity of market reactions?

A unique dimension in this case was the role of shareholder activism, where prominent activist investors, such as Bill Ackman and Daniel Loeb, publicly opposed the merger and influenced the narrative surrounding its strategic and financial rationale. Their interventions coincided with heightened volatility in UTC (UTX) and RTN's stock prices. For instance, Ackman's email to UTC's CEO on June 9, 2019, was followed by a decline in UTX's stock price from \$78 to \$73, while Loeb's letter to UTC's board on June 28 led to further fluctuations, with UTX increasing from \$77 to \$78 and RTN declining from \$174 to \$171. These events underscore how activist

interventions can amplify market reactions. Additionally, case study Exhibit 10 in the case study can be used to show how the largest deviation between the movement of both stock prices was during the shareholder activism period, further emphasizing its impact. However, the instructor should also point to the fact that despite the temporary volatility induced by activist interventions, the overall impact of these investors did not pose a substantial challenge or risk to the merger, as the activism ended just as suddenly as it began.

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- Why might activist opposition lead to heightened volatility in stock prices during M&A transactions?
- What do the fluctuations in UTX and RTN stock prices suggest about how investors weighed the activists' criticisms against management's defence of the merger?
- How can the market's reaction to activist interventions in this case inform our understanding of investor concerns during large-scale mergers?

Beyond observing these stock price movements, students can calculate and interpret the market-implied synergies. These synergies are estimated based on the changes in the combined market capitalization of UTX and RTN following the merger announcement. After the merger was announced on June 9, UTX's stock dropped by approximately 7% within the following two days, while RTN's stock fell by 4.5%, suggesting a negative reaction leading to combined market implied synergies of approximately -\$7 billion. The negative market-implied synergies can be calculated using the following formula:

$$\text{Market Implied Synergies} = (\Delta P_{\text{UTX}} \times N_{\text{UTX}}) + (\Delta P_{\text{RTN}} \times N_{\text{RTN}})$$

Here, ΔP_{UTX} and ΔP_{RTN} represent the absolute change in UTX's and RTN's stock price, while N_{UTX} and N_{RTN} represent the number of outstanding shares of each company. The teacher can

instruct students to calculate the market-implied synergies and use Figure 5 in the appendix as guidance for the calculation. Furthermore, since these are raw changes, the instructor can perform an event study analysis to control for market-based factors and isolate changes driven by the events themselves if appropriate.

Given the stock price decline and respective market capitalization decrease, the market-implied synergies indicate that investors initially expected the costs and risks of the merger to outweigh its potential benefits. The difference between market-implied synergies and management-projected synergies provides a critical discussion point. For example, students can debate whether the market reaction reflects scepticism about the feasibility of achieving such synergies or broader concerns about integration risk, the rationale or other challenges of the deal. This calculation and comparison create a strong basis for evaluating whether the markets' concerns were justified or overly pessimistic.

GENERAL PART

iii. Deal structure & motives

a. Merger of equals

The challenges that are reflected in the market's initial reaction to the UTC-Raytheon deal raise questions about the ownership, governance and strategic rationale of mergers branded as “*mergers of equals*”. In order to introduce students to the concept of a merger of equals (MoE), it is important to explain both the theoretical framework and the practical implications of this structure and apply it to the case of the UTC-Raytheon deal. The discussion should begin by reiterating the concept of MoE and ensuring that students understand the criteria: comparable size, market position, profitability and valuation. In this context, a critical reflection on the feasibility of the concept of merger of equals, similar to the concept of comparability, should

be continued. In addition, the possible strategic rationale for labelling a transaction as a merger of equals should be explored.

Students should refer to the following reading to understand the various arguments behind the term “*merger of equals*”: *Can a merger of equals truly exist?* (Alluru and Thomas 2016) which suggests that less than 1% of the M&A deals could be classified as mergers of equals. Rather, the term “*merger of equals*” is often used as a tactic in mergers and acquisitions to: “*Circumvent regulatory hurdles & reassure anxious stakeholders, especially those of the ‘weaker’ partner*” (Alluru and Thomas 2016).

In the next step, students should challenge the post-merger realities that challenge the MoE narrative in the United Technologies - Raytheon merger:

- The post-merger ownership Structure split consisting of 57% UTC and 43% Raytheon supports the imbalance of power and challenges the perception of an equal partnership. Could the division be an indicator of UTC's dominance in the negotiations or a strategic intention to reassure stakeholders from the smaller, “*weaker*” partner?
- The governance division of 7 independent board seats for UTC and 6 for Raytheon also reflects inequality. Therefore, students should discuss whether this split supports a true MoE or reflects UTC's stronger bargaining position.

The following list of standard questions is proposed. The instructor is free to modify them:

- What are the arguments supporting UTC-RTN merger being a merger of equals and what are the arguments against it?
- What are possible challenges when creating a true equal merger between two companies of different sizes, operational focuses, and market positions, such as UTC and Raytheon?

- How does the UTC-Raytheon merger compare to other famous MoEs (e.g. the Daimler-Chrysler or Lafarge-Holcim mergers)? What can be learned from these MoEs regarding integration challenges and value creation?

iv. Value creation

a. Standalone valuation and relative analysis

The valuation exercise serves as a practical transition, linking the students' prior analyses to the valuation outcomes for UTC and Raytheon. To evaluate students results, instructors should use the provided Excel file as a guide to discuss the range of valuation results derived from various methods. For this case study, understanding the valuation is an important aspect because the deal was criticised by stakeholders for being financial irrational and for not showing obvious financial benefits and characteristics of a typical merger deal.

For the valuation exercise, students can apply simplified assumptions, which are largely predefined in the case study material and use the most widely used valuation techniques, such as discounted cash flow (DCF), comparable company analysis (CCA) and comparable transaction analysis (CTA). The valuation results included in the provided Excel file offer examples using DCF, CCA, and CTA to estimate the standalone values for both UTC and Raytheon before the merger. These valuations are based on historical data from a recent period and use Q1 2019 as the cut-off date because this is the closest date to the merger announcement without including post-announcement volatility, providing a baseline for assessing the intrinsic value of each company.

For UTC, the football field chart (Figure 8) yields the following estimated values, calculated using different approaches:

- DCF Analysis: Depending on the assumptions used, the valuations range from around \$90.96 to \$162.91 for the mixed approach, with the perpetuity method, extending the potential valuation from \$98.69 up to \$207.21.
- CTA: Transaction-based multiples result in valuations between \$38.01 and \$113.47, reflecting differences across metrics like EV/Revenue, EV/EBIT and EV/EBITDA.
- CCA: This method yields a broader spread of values, with lower estimates starting at \$6.37 (EV/EBIT) and higher estimates reaching \$399.44 (P/BV).

For Raytheon, the football field chart (Figure 8) yields the following estimated values, calculated using different approaches:

- DCF Analysis: The mixed approach range extends from \$175.20 to \$242.07, with the perpetuity-based valuation falling between \$159.90 and \$220.85.
- CTA: The values derived from transaction multiples span from \$102.15 to \$592.05, depending on the metric applied.
- CCA: The spread here is particularly wide, with some valuations as low as \$41.34 and others as high as \$395.31 based on P/BV ratios.

It is beneficial for instructors to discuss the spread of valuation results, explaining why students might have obtained different values based on their assumptions and methodologies. Referring to historical stock prices can help students compare the calculated values with market pricing to better understand the relationship between perceived intrinsic value and actual market behaviour. In relation to this, it is important to discuss any potential premium associated with the merger in a next step.

An engaging exercise to close this topic and enhance student participation involves asking them to take on the role of shareholders for either UTC or Raytheon, then deciding whether they

would support the merger based on their own valuation results. Here, the instructor can ask the students to vote for or against the merger by hand signal to capture the current opinion of the class. This activity can be repeated later, after additional aspects of the deal have been discussed, to see how their opinions may shift with a deeper understanding.

b. Merger premium and value creation expectations

The concept of a merger premium is critical to understanding the economics of the Raytheon-UTC merger. Participants should analyse the difference between the calculated intrinsic values and the merger terms to understand whether a premium is justified. Factors justifying a premium could be expected synergies, an improved market position or strategic advantages that would make the merged company more valuable than the two separately operating companies. However, it should be noted that these synergies remain speculative until the merger is finalized.

To gain an overall understanding of deal premiums, students could answer selected questions:

- What factors justify paying a premium for the companies' stock?
- Why should shareholders of Raytheon expect a premium for approving the acquisition?
- How does the presence or absence of synergies affect the size of the premium?
- How did Raytheon's shareholders possibly responded when the no premium had been offered? Could UTC have justified this approach by pointing to the strong strategic fit and synergies?
- Does the no-premium structure reflect disciplined capital allocation, or does it suggest a lack of confidence in the merger's potential for transformative growth? Would a small premium have been strategically beneficial to align the interests of both companies' shareholders, or would it have introduced unnecessary risks? If so favouring which party?

To enhance the discussion on the potential cost-saving synergies and their impact on the merger's valuation, it is essential to analyse the dynamics of the deal structure and the strategic decision-making involved. The expected cost-saving synergies of \$500 million, though modest relative to the size of the deal, may suggest a carefully calculated approach by UTC to not overpay, reflecting disciplined decision-making. This could be a strategic move, especially considering UTC's position as the larger entity in the merger, potentially allowing it to negotiate a lower premium or opt for a 'merger of equals' structure. Such a structure helps mitigate the high expectations that typically come with large premiums, aligning more closely with the actual value being offered to shareholders.

To provide a more detailed financial analysis, the instructor may choose to guide students in calculating the exchange ratio after completing all valuation exercises, utilizing their outputs alongside the actual stock prices. With the real-world 57/43 post-merger ownership split, derived from the actual exchange ratio of 2.34, students can recompute this structure by using their DCF valuations and actual stock prices, including estimated synergies. Appendix Figure 9 and Figure 10 serve as a reference, illustrating that the teacher's Excel valuation suggests a DCF-implied exchange ratio of 1.69, while the exchange ratio using stock prices yields 2.36 for the actual ownership structure of 57/43. The low DCF exchange ratio compared to the almost identical exchange ratios using stock prices and the actual exchange ratio could indicate whether UTC managed to secure a deal favourable to its stakeholders or if the market conditions justified a no-premium deal.

While the management decided against the inclusion of a premium, students should understand the reasoning and perceptions of a no-premium deal and discuss the following aspects:

- Strategic fit: Students should debate whether the strategic alignment between the two companies - both leaders in aerospace and defence - could justify a no-premium deal.

- Acquisition at fair market value: UTC carries less risk as it ensures that the company does not overpay for synergies. However, students should consider whether Raytheon's shareholders would see this as undervaluing their company.
- Perceptions of shareholders: UTC's shareholders might appreciate the disciplined financial approach of avoiding a premium but could also question whether the target is worth acquiring if a premium is not justified. Conversely, Raytheon's shareholders may feel that a no-premium deal does not adequately compensate them for the future growth potential of their company.

While value creation expectations are a key driver of merger premiums, in the Raytheon-UTC merger the focus shifts to how value will be realised for both the acquirer and the target as there is no significant premium. To encourage critical thinking, the instructor should guide students and help them evaluate whether the Raytheon-UTC merger is consistent with typical value creation assumptions. The transaction deviates from conventional factors: the characteristics of the target (a large, publicly traded company), the lack of growth potential typically present in smaller or private acquisitions, the payment structure of the share exchange which creates dilution risk for shareholders and is contrary to the value-enhancing characteristics of cash deals and UTC's ongoing integration efforts which result from previous acquisitions. All of these factors bring into question whether the company is overextended, which could affect its ability to fully realise synergies in this merger. To introduce another critical discussion of value creation, the following quote should be cited: *“Even though this acquisition adds scale and diversification, the economic benefits appear to be modest,”* said Robert Spingarn, analyst at Credit Suisse Group AG. *“We don't see the additional size significantly deepening existing divides or improving competitiveness.”* (Bloomberg 2019a). Finally, the quote should lead to a discussion about the justification of the merger, whereas students should debate whether the

strategic direction of these companies justifies the merger despite the relatively modest synergy effects or not.

Having discussed relevant pros and cons of the deal in the context of value creation, the subject should shift towards the size of the deal and entities merging. Since it can be classified as a “megamerger”, students should explore the following journal article *Do mega-mergers create value?* (Hu, Li, and Wang 2020) and understand how acquirers' previous acquisition experience impacts the success and value of mega-mergers (deals over \$500 million). The study concludes that companies with more acquisition experience, i.e. with at least 12 completed transactions, are more likely to successfully complete mega-mergers and achieve higher shareholder value in both the short and long term (Hu, Li, and Wang 2020 ; Glubov, Yawson, and Zhang 2015).

The following list of standard questions is proposed. The instructor is free to modify them as they please:

- What lessons can be learned from other megamergers where experienced acquirers outperformed, and how can these lessons be applied to the Raytheon-UTC deal?
- With only \$500 million in synergies projected, does this figure meet the expectations for a deal of this size? What are the risks if the projected synergies are not achieved?

The instructor should lead a final interactive debate in which the class is divided into groups arguing either for or against the merger, focusing on specific aspects such as synergies, strategic direction, shareholder perception and the merger premium. Each group should present their arguments based on the concepts discussed to determine whether the merger is justified in its current form.

c. Synergies valuation

In building upon the earlier discussion of value creation, the focus should shift to cost synergies, which are among the most quantifiable and reliable synergies in mergers. For the Raytheon-

UTC transaction, cost synergies represent a major driver of the deal rationale, underlining the strategic emphasis on operational efficiencies and streamlined processes.

The projected gross annual cost synergies of \$1 billion by year four align with typical expectations for large-scale aerospace and defence mergers. However, achieving this level of savings requires a phased realisation, given the complexities of post-merger integration. To guide the valuation exercise, instructors should emphasise that synergies materialise incrementally rather than immediately, reflecting both integration timelines and industry practices (Bruner 2004; The Boston Consulting Group 2018).

For this exercise, students are provided with a baseline approach, but assumptions remain flexible to encourage critical thinking and discussion:

- Phased realisation: The percentages that contribute to full realization in Year 4 (e.g., 25%, 50%, 75%) are variable and can be modified by Students. This enables a discussion regarding the potential for synergies to develop at a quicker or delayed pace, depending on the realistic integration challenges.
- Integration costs: The total one-off integration costs of \$600 million are spread evenly over the first two years as a starting point. However, students are free to reallocate these costs across the timeline to reflect alternative assumptions about restructuring, severance or IT implementation timing.

The valuation applies the combined entity's WACC of 8.56%, ensuring consistency with the entity's capital structure and risk profile. Net synergies are calculated post-tax at a 21% rate. Figure 11 provides a clear visualisation of the phased realisation of net savings, while Figure 12 demonstrates the corresponding increase in enterprise value.

Instructors can use these assumptions as a basis for an intermediate discussion on the challenges of synergy realisation:

- Is the phased approach realistic? Could synergies ramp up more quickly, or are there risks of delays?
- How might frontloading or backloading these costs impact the net present value of synergies?
- Why is it important to test alternative scenarios in synergy valuation? How do changes to realisation timing or cost allocation affect the overall outcome?

By allowing students to adjust key variables and debate their assumptions, this section creates room for active discussion and reinforces the importance of combining financial analysis with strategic execution. The instructor can guide students towards refining their reasoning and using the provided Excel calculations as a reference point for comparison.

Students should be reminded that looking at synergies in isolation when assessing value can sometimes lead to overestimation of their impact, since actual execution risks may diminish expected savings (Bruner 2004). By examining flexible inputs, students may recognize the sensitivity of valuation outcomes to fundamental assumptions and critically evaluate the feasibility of anticipated cost synergies. This exercise also provides an opportunity to contrast cost synergies with other forms of synergies discussed earlier. While cost synergies are often the most tangible and measurable, their realisation depends heavily on disciplined integration. Compared to more speculative synergies such as innovation and financial synergies in the Raytheon-UTC merger, though limited, offer a more tangible outcome in the form of a minor WACC reduction, as shown in Figure 13. This shift, driven by refinancing benefits and the coinsurance effect, highlights a stabilising effect on cash flows, yet remains too small to generate significant standalone value.

To encourage critical thinking, instructors might pose the following question:

- Even if financial synergies do not create substantial value, could their stabilising effect support the merger’s strategic goals, such as enabling long-term R&D investments or offsetting integration risks?

Using Figure 13, instructors can encourage students to discuss the trade-off between the feasibility of financial synergies and their potential contribution to value creation in the future.

v. *Risk-return trade-off: Why was the deal done?*

As highlighted in the previous sections, the merger of UTC and Raytheon is a good illustration of the complexity of strategic decision-making in mergers and acquisitions. To answer the central question “Why was the deal done?”, students should create a structured pro and con list that summarises the key factors that form the decision-making framework and promotes a balanced assessment of the trade-offs involved this transformative transaction similar to the one provided in Figure 17.

Students should assess that the deal presented significant upside potential due to operational synergies, which promised cost savings and increase efficiency. Additionally, the merged entity benefited from a coinsurance effect, balancing UTC’s cyclical revenues with Raytheon’s stable government-backed contracts to enhance overall creditworthiness. Furthermore, the combined entity was well-positioned to leverage enhanced R&D capabilities, driving innovation in critical future-oriented technologies such as autonomous systems, AI, and hypersonic weapons. These advantages positioned the merger as a strategic move to establish long-term leadership in an increasingly consolidated and competitive aerospace and defence market.

However, students should identify the risks as equally significant. First of all, they should name the integration challenges as a key concern, particularly as UTC was navigating the complexities of spinning off Otis and Carrier while integrating Rockwell Collins. In terms of the deal structure students should raise the questions of fairness, due to the 57/43 equity split

and all-stock consideration. Moreover, students should mention the timing of the merger during the COVID-19 pandemic which added further uncertainty, intensified market volatility and therefore amplified risks. The voices of critics and activists, who pointed to a possible overestimation of the management and mentioned the possibility of value destruction through a conglomerate discount, should also be included in the overall assessment.

To conclude the case the instructor can guide the final discussion in two possible directions:

- Risk-return trade-off: Students should critically assess whether the strategic benefits of the deal, such as synergies, innovation, diversification, and long-term positioning, were sufficient to justify the risks, including integration challenges, shareholder dissatisfaction, and external uncertainties like the pandemic.
- Alternative management decisions: The instructor can encourage students to debate various courses of action management could have taken, considering the broader context of the deal:
 - Could management have renegotiated terms to better address shareholder concerns, such as adjusting the equity split or incorporating partial cash consideration to mitigate perceived inequality?
 - Would terminating the deal have been a choice, even at the cost of breakup fees, given the ongoing spin-offs and heightened risks posed by the pandemic?
 - Was proceeding with the merger the optimal decision, focusing on the potential long-term strategic benefits despite the short-term uncertainties and integration complexities?

EPILOGUE

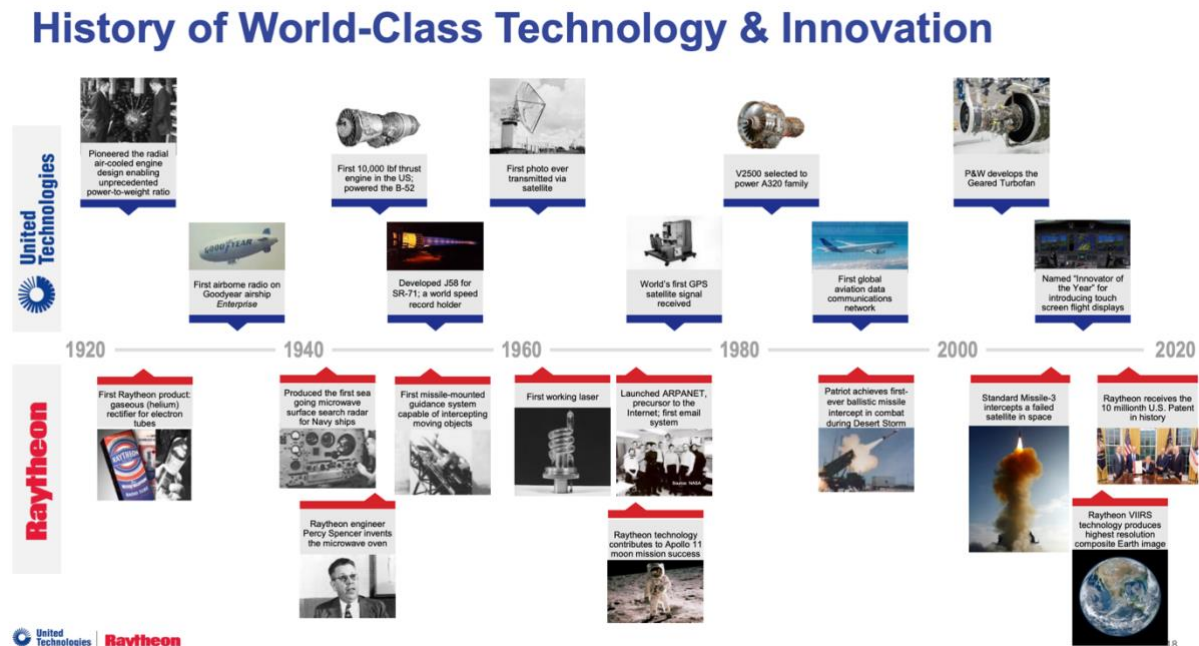
When United Technologies Corp. and Raytheon Company announced their merger in 2019, scepticism was high, as relevant shareholders saw it as an ill-conceived merger which lacked

rationality and was poorly timed. However, in the face of uncertainty, leadership held firm, driven by a vision of building a diversified aerospace and defence powerhouse. By the time RTX emerged in April 2020, the world stood still amid a global pandemic. The commercial aerospace industry struggled, yet the merger revealed its true value. Raytheon's robust defence business, supported by government contracts, provided a lifeline, proving the strength of a diversified portfolio. As competitors resorted to layoffs, Raytheon reallocated employees to its defence segments, safeguarding jobs while adapting to market realities (Bloomberg 2020).

Fast forward to 2023, under Greg Hayes's leadership, RTX stood successful. The company not only weathered the storm but RTX's defence business has thrived amid growing geopolitical tensions and global unrest, driving increased demand for advanced military technologies and showing a record backlog of \$196 billion (Rajan 2024). As RTX solidifies its position as a leader in both aerospace and defence, the architect of the merger, CEO Greg Hayes, announced his retirement in 2024 and Chris Calio stepping in as CEO. In retrospect, however, the formation of Raytheon Technologies Corporation turned out to be a strategic success, as it provided the merged company with stability and resilience at a time of global uncertainty (Rajan 2024).

APPENDIX

Figure 1. Historical background of UTC and Raytheon

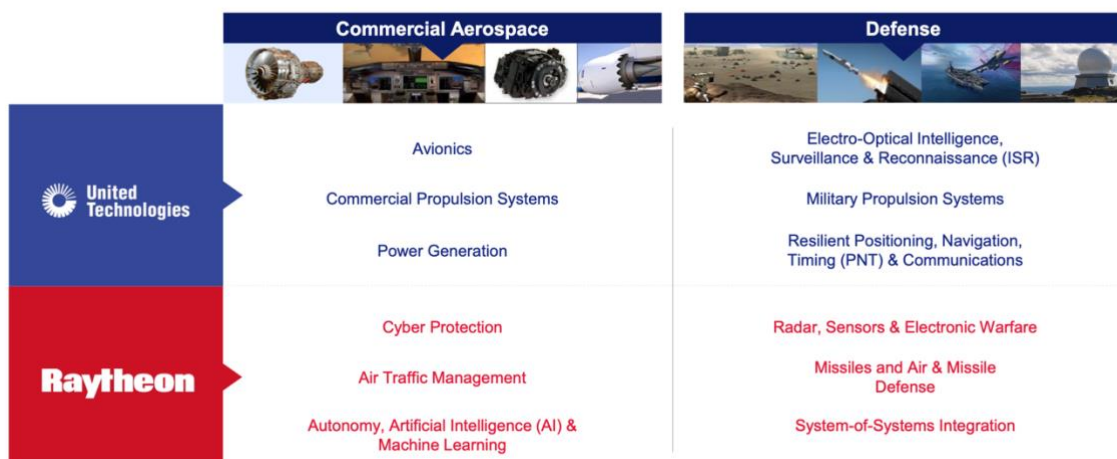


Source: (RTX 2019)

Figure 2. Existing capabilities of UTC and Raytheon

Existing Capabilities Are Highly Complementary

Representative capabilities brought to combination



Source: (RTX 2019)

Figure 3. Combined product offering of RTX



Source: (RTX 2019)

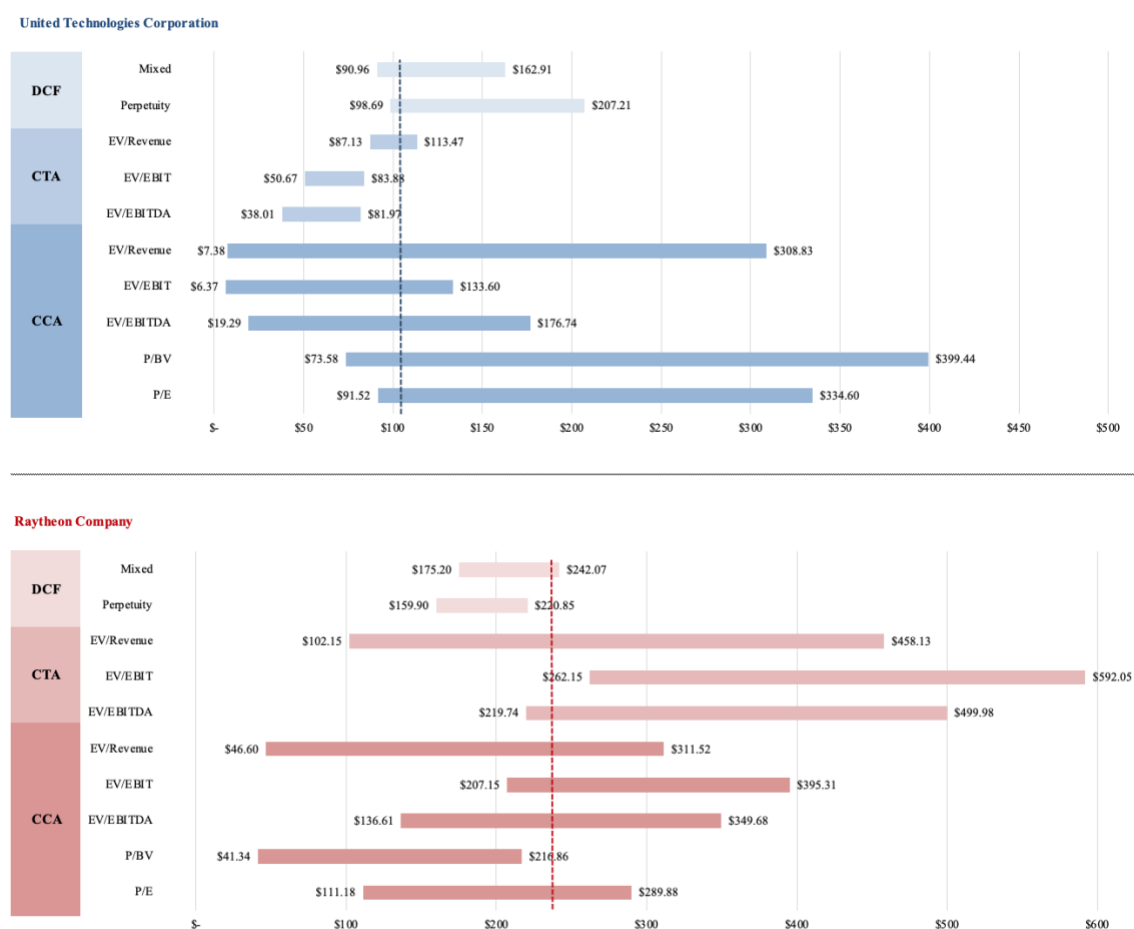
Figure 5. Market implied synergies calculation

Market implied Synergies Calculation (in \$ unless stated otherwise)

Pre-Merger Share Price UTX (07.06.19)	77,9	Pre-Merger Share Price RTN (07.06.19)	185,9
Post-Merger Share Price UTX (11.06.19)	72,5	Post-Merger Share Price RTN (11.06.19)	177,6
Change in Share Price (in %)	-7,0%	Change in Share Price (in %)	-4,5%
Number of Shares UTC FY18 (in mm)	861	Number of Shares RTN FY18 (in mm)	282
Change in Market Cap UTX (in bn)	(4,7)	Change in Market Cap RTN (in bn)	(2,3)
Market Implied Synergies (in bn)		(7,0)	

Source: Data derived from Bloomberg, own calculation

Figure 8. Football Field charts for UTC and Raytheon



Source: Own illustration

Figure 9. Exchange ratios using DCF valuation

Cost Synergies			\$13.347									
UTC												
Number of pre-merger shares	862,3											
Synergy share (a)	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	
Pre-merger value (31/3/2019)	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401	\$101.401
Synergies received	\$0	\$1.335	\$2.669	\$4.004	\$5.339	\$6.674	\$8.008	\$9.343	\$10.678	\$12.013	\$13.347	\$13.347
Pre-merger value + synergies	\$101.401	\$102.736	\$104.071	\$105.405	\$106.740	\$108.075	\$109.409	\$110.744	\$112.079	\$113.414	\$114.748	\$114.748
Per-share merger value (including synergies)	\$117,6	\$119,1	\$120,7	\$122,2	\$123,8	\$125,3	\$126,9	\$128,4	\$130,0	\$131,5	\$133,1	\$133,1
RTN												
Number of pre-merger shares	280											
Synergy share (1-UTC's synergy share)	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%	
Pre-merger value (31/3/2019)	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615	\$54.615
Synergies received	\$13.347	\$12.013	\$10.678	\$9.343	\$8.008	\$6.674	\$5.339	\$4.004	\$2.669	\$1.335	\$0	\$0
Pre-merger value + synergies	\$67.962	\$66.627	\$65.293	\$63.958	\$62.623	\$61.288	\$59.954	\$58.619	\$57.284	\$55.949	\$54.615	\$54.615
Per-share merger value (including synergies)	\$242,7	\$238,0	\$233,2	\$228,4	\$223,7	\$218,9	\$214,1	\$209,4	\$204,6	\$199,8	\$195,1	\$195,1
Exchange Ratio (RTN/UTC)	2,06	2,00	1,93	1,87	1,81	1,75	1,69	1,63	1,57	1,52	1,47	1,47

Source: Own calculation

Figure 10. Exchange ratios using stock prices

Cost Synergies		\$13.347									
UTC											
Number of pre-merger shares	862										
Synergy share (a)	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Pre-merger value (31/3/2019)	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552	\$65.552
Synergies received	\$0	\$1.335	\$2.669	\$4.004	\$5.339	\$6.674	\$8.008	\$9.343	\$10.678	\$12.013	\$13.347
Pre-merger value + synergies	\$65.552	\$66.887	\$68.222	\$69.556	\$70.891	\$72.226	\$73.561	\$74.895	\$76.230	\$77.565	\$78.900
Per-share merger value (including synergies)	\$76,0	\$77,6	\$79,1	\$80,7	\$82,2	\$83,8	\$85,3	\$86,9	\$88,4	\$90,0	\$91,5
RTN											
Number of pre-merger shares	280										
Synergy share (1-UTC's synergy share)	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
Pre-merger value (31/3/2019)	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982	\$50.982
Synergies received	\$13.347	\$12.013	\$10.678	\$9.343	\$8.008	\$6.674	\$5.339	\$4.004	\$2.669	\$1.335	\$0
Pre-merger value + synergies	\$64.330	\$62.995	\$61.660	\$60.326	\$58.991	\$57.656	\$56.321	\$54.987	\$53.652	\$52.317	\$50.982
Per-share merger value (including synergies)	\$229,7	\$225,0	\$220,2	\$215,4	\$210,7	\$205,9	\$201,1	\$196,4	\$191,6	\$186,8	\$182,1
Exchange Ratio (RTN/UTC)	3.02	2.90	2.78	2.67	2.56	2.46	2.36	2.26	2.17	2.08	1.99

Source: Own calculation

Figure 17. Final assessment - risk-return trade-off

Pro

Operational and Financial Synergies:

- cost savings from shared supply chains, improved creditworthiness, and risk reduction via coinsurance

Diversification and Resilience:

- balances UTC's cyclical revenues with Raytheon's stable government-backed contracts, reducing dependency on individual market segments.

Innovation Promotion:

- enhances R&D capacities, enabling advancements in future-oriented technologies (e.g., AI, autonomous systems, hypersonic weapons) and supports long-term market leadership through innovative aerospace and defence solutions.

Long-term Market Positioning:

- positioning of the new entity as a leading player in a consolidated market environment, increased competitive intensity and regulatory challenges.

Con

Environment and Timing:

- high volume of prior merger activity undertaken by UTC (Collins acquisition and spin offs), A&D industries merger trend, Covid downturn

Equality?

- merger of equals but 57/43 split
- debt levels, financial situation, historic stock performance, valuation results

Integration challenges:

- UTC's integration challenges with the ongoing integration of Rockwell Collins while simultaneously managing the spin-offs of Otis and Carrier, stretches its resources and creating additional complexity ahead of the Raytheon merger.

(Questionable) Deal Risk Balance:

- significant deal value risk disadvantaging Raytheon shareholders due to the all-stock consideration compounded by the COVID-19 pandemic and the inapplicability of the MAE clause., while UTC bears a higher burden of completion risk

Shareholder critique:

- overconfidence of management (hubris, empire building), undervaluation of UTC, RTN is a business of inferior quality, conglomerate discount

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