|  |  |  |  |
| --- | --- | --- | --- |
| United Technologies  Ticker: UTX  Sector: Industrials  Industry: Aerospace & Defense | Intrinsic Value: $120.00  Current Price: $97.88  Stop Loss: $79.00  Upside Review: $155.00 | TTM P/E: 13.8  Forward P/E: 18.8  Beta: 1.13 | Market Cap:$87.4B  Dividend Yield: 2.8%  52 Week Range: $85.50-$124.45 |
| **Business Summary:** United Technologies Corp. operates in five business segments: Pratt & Whitney (revenues of $14.5 billion in ’14) makes and services commercial and military aircraft engines; Otis ($12.9 billion) the world’s largest manufacturer and servicer of elevators and escalators; UTC Climate ($16.8 billion) makes heating, ventilating, and air-conditioning (HVAC) equipment; Sikorsky ($7.5 billion) makes helicopters (now sold to Lockheed); UTC Aerospace ($14.2 billion) produces aerospace and industrial products. Acquired Goodrich 7/12. (Value Line)  **Industry Trends:** There is a positive outlook for the commercial aerospace and neutral outlook on defense for the next 12 months. Increases in commercial air traffic, driven by recovering global economic trends, will help drive strong commercial aerospace results. Trade association IATA estimates that global passenger air traffic grew 5.9% in 2014 after growing 5.2% for 2013 and sees growth of 7.0% in 2015. This continued solid demand for new commercial jets, fueled by growth in the developing markets and a need to replace aging, less fuel-efficient aircraft in developed markets. (S&P Capital IQ)  **Investment Thesis:** Modest organic growth in 2015 as global economic weakness and currency impacts will offest strong North American growth for United Technologies’ aerospace, building and industrial products and services. For 2016, we see United Technologies garnering substantial operating leverage, aided by the significant prior-years' restructuring, and generating strong free cash flow. Margins and cash flow should also benefit from reduced spending on new restructuring and moderating pension headwinds. (S&P Capital IQ) | | **Competitive Analysis:** Sales are down 12% in 2015 and up 3% in 2016, reflecting weakness in Otis in Europe and a slowdown in demand for aftermarket aerospace products, coupled with currency weakness in foreign markets. Offsetting this is accelerating global air traffic growth, rising aerospace OEM production rates and a strengthening U.S. residential construction market, but weaker U.S. government sales. Currency impacts are likely to cut 3%-4% off of top line growth in 2015. The Goodrich integration is progressing well. Synergies are on track for an incremental $500 million in savings by 2016. (S&P Capital IQ)  **Pros:**   * For 2016, we see UTX garnering substantial operating leverage, aided by the significant prior-years' restructuring, and generating strong free cash flow. * Margins and cash flow should also benefit from reduced spending on new restructuring and moderating pension headwinds.   **Risk Factors:**   * The possibility of a worsening in the global economy, acquisition integration risk, operational issues, the impact of sequestration on U.S. defense spending and a sustained rise in the dollar, particularly versus the euro. | |

|  |  |
| --- | --- |
| **5 Year Stock Performance:** | **Key Valuation Assumptions**  Estimated Revenue Growth: 3.5%  WACC: 8.5%  Expected Inflation: 1.8%  Terminal Growth Rate: 3.5%  10 Year Risk Free Rate: 2.08%  Equity Risk Premium: 7.2%  Tax Rate: 30%  **Key Financial Data**  Est 2015 EPS: 6.22  Est 2016 EPS: 6.65  3-5 Year Est EPS Growth: 8.91%  PEG (TTM): 1.23  Credit Quality: A2 (Moody’s), A- (S&P)  ROE: 19.72  ROA: 6.84  Price/Book: 3.35  Price/Cash Flow: 14.29  Debt/Equity: 63.43  Current Ratio: 1.30  Quick Ratio: 0.87  **CSR Characteristics (Company/Industry)**  ESG Disclosure Score: 28.10 (20.77 Industry Average)  Governance Disclosure Score: 55.36 (53.41 Industry Average)  Social Disclosure Score: 24.56 (25.06 Industry Average)  Environmental Disclosure: 17.83 (16.28 Industry Average)  **Prepared by Alex Sadowski (October 21, 2015)**  Information From: Bloomberg, Value Line, S&P Net Advantage, and Yahoo Finance |