

# United Technologies Corp (UTX: NYSE)

Sector: Industrials



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$130.00	\$81.00	\$158.44	\$69.02	13	\$70.87B	3.59%	1.26

## Business Description:

United Technologies Corp (UTX) designs, manufactures, and sells capital equipment, jet engines, and avionics systems to clients such as Boeing, Airbus, and the Department of Defense. The core of UTC's business strategy is to sell its products at cost and provide MRO services for high margins. This model attributes to their consistent cash flows, high customer retention rates and impressive ROIC. They are the sole source producer of many military and commercial grade jet engines. Some of which include the F-135 for the F-35 Lightning 2 and the PW1100G, the most fuel-efficient geared turbofan jet engine on the market.

## Industry Trends:

Operating as a conglomerate, UTC is exposed to many different industries. Their largest operating segments are within the elevator, HVAC, jet engine and aerospace industries. The jet engine market is consolidated into two major industry players, GE and Pratt & Whitney. This consolidation allows for significant pricing power, customer retention, and sole sourcing advantages. The capital equipment groups, Otis and Carrier, possess dominant market share in their respective elevator and HVAC markets. These industries are expected to grow conservatively over the next five years.

## Investment Thesis:

We believe United Technologies is a strong buy because of its defensiveness through business cycles, predictable free cash flow, and high ROIC. Additionally, its focus on innovation has catapulted it to the front of government and commercial contracts, garnering partnerships for years to come. We believe the market has overreacted to the recent COVID-19 pandemic as historically large market disruptions do not translate to business-altering epidemics. Additionally, the spin-offs of Otis and Carrier along with the merger with Raytheon will give the combined Raytheon Technologies significant technological synergies and pricing advantages.

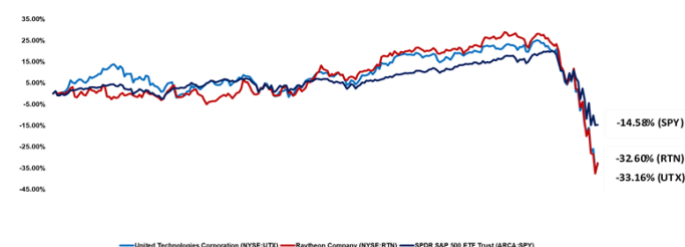
## Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 3.0%

Margin of Safety: 10.0%

## 1-Year Share Performance vs. S&P 500:



## Competitive Advantage and Analysis:

The combined UTC and Raytheon businesses will create a one-stop shop for customers based on the firms' complimentary product portfolios. Under the new name Raytheon Technologies, the business will become the second largest aerospace and defense company in the world behind Boeing. In addition to expanding the breadth of their product portfolio, the scale of the merger is expected to create cost-savings and supply chain efficiencies through consolidation. Furthermore, we anticipate the Otis and Carrier to uphold their positions as market leaders in their respective businesses and do not foresee a negative impact from their spin-offs.

## Risks:

As an aerospace and defense contractor, Raytheon Technologies will have high exposure to government contracts. Changes in administration or de-escalation of global conflict may detrimentally impact revenues. Additionally, both UTC and Raytheon are dependent on some raw materials sourced through a single supplier or a suppliers who exist in commodity markets where supply may be allocated in limited quantities to purchasers.

## Corporate Social Responsibility Highlights:

- UTC has donated more than \$250 million to local communities since 2012, with more than \$20 million attributed to employee matching
- Pratt & Whitney's Geared Turbofan™ jet engine reduces fuel burn by 16%, NO<sub>x</sub> emissions by 50% and noise footprint by 75%.
- Raytheon initiated a five-year partnership to commit \$10 million to Boys & Girls Clubs of America and Student Veterans of America in 2015

## Report Prepared By:

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Sources: NetAdvantage