18 September 2011
Americas/United States
Equity Research
Multi-Industry-3

United Technologies Corp (UTX)

COMMENT

Rating	**OUTPERFORM***
Price (16 Sep 11, US$)	75.50
Target price (US$)	91.00[1]
52-week price range	91.39 - 67.44
Market cap. (US$ m)	68,607.83
Enterprise value (US$ m)	75,910.84

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.

Research Analysts

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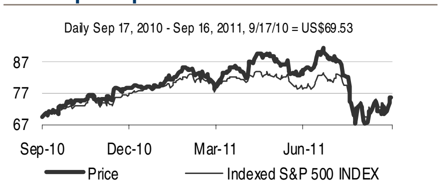
Going for Goodrich?

- **Media reports (Bloomberg - 9/16) suggest UTX is looking to acquire GR. We think a deal makes strategic and tactical sense and retain our Outperform rating on UTX:**
- **Logic for the deal:** UTX is in the process of revitalising its aerospace platform; the first phase revolves around P&W, which has regained a foothold in the commercial aero market with the GTF engine. An acquisition of GR (mkt cap is 17% of UTX's) would add further momentum to this, giving UTX leading positions in a range of products such as aircraft wheels and brakes as well as engine nacelles. Furthermore, the mix of GR is attractive (43% AM, 66% commercial aero). GR has not been hugely cyclical (-13% EPS decline in 2009) and yet is capable of delivering rapid growth (~10% EPS CAGR 2006-2011E). We think an aerospace deal for UTX it is likely to prove more margin and valuation multiple-enhancing than a fire & security or other construction related transaction. On our estimates, excluding synergies and PPA, at a takeout price of $125/share, the deal would be 9% accretive for UTX 2012 EPS, with financial leverage proving very manageable (1.6x Net Debt / EBITDA).
- **Risks**: (i) Could the nacelles business (35% of GR sales) suffer as other engine OEMs will be concerned if it shares a parent with P&W? We think this is only a small risk, given Safran and GE established Nexcelle in 2008. (ii) Medium-term, margins are likely near peak at GR given its AM-exposure is earlier-cycle; as OE ramps, margins will be under pressure; (iii) the market reaction to large deals has not been that positive (DHR, SPW); however we think the high growth and high aftermarket content at GR should prove reassuring.

Share price performance



On 09/16/11 the S&P 500 INDEX closed at 1216.01

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.93	1.20	1.30	1.31
2011E	1.11	1.45	1.42	1.51
2012E	—	—	—	—

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	4.74	5.48	6.26	7.03
Prev. EPS (US$)	—	—	—	—
P/E (x)	15.9	13.8	12.1	10.7
P/E rel. (%)	111.8	113.1	112.9	111.7
Revenue (US$ m)	54,326.0	59,163.1	63,106.5	66,665.2
EBITDA (US$ m)	9,156.0	9,723.8	10,748.6	11,631.1
OCFPS (US$)	6.40	4.51	7.92	8.75
P/OCF (x)	12.3	16.8	9.5	8.6
EV/EBITDA (current)	8.2	7.7	7.0	6.4
Net debt (US$ m)	6,206	7,303	3,706	-348
ROIC (%)	20.91	19.76	21.17	23.26

Number of shares (m)	908.71	IC (current, US$ m)	30,484.48
BV/share (Next Qtr., US$)	24.6	EV/IC (x)	2.5
Net debt (Next Qtr., US$ m)	6,047.0	Dividend (Next Qtr., US$)	0.48
Net debt/tot. cap. (Next Qtr.,	29.7	Dividend yield (%)	0.64

Source: Company data, Credit Suisse estimates.

Investment summary

In this report we seek to analyse the merits and risks for UTX if it does acquire Goodrich. Overall, we think the deal makes strategic and tactical sense, in terms of providing fresh impetus to the Aerospace assets at UTX, and the deal is being done at a time when corporates with good balance sheets can raise debt cheaply, and buy assets in highly accretive ways. We show below the effects on UTX's 2012 earnings and balance sheet if it does buy GR.

Exhibit 1: Theoretical M&A Scenarios

$ in millions, unless otherwise stated

	Current	Potential Targets			Combined Entities		
2012E	**UTX**	**TXT**	**COL**	**GR**	**UTC / TXT**	**UTC / COL**	**UTC / GR**
Takeout Price (Estimate)		25	76	125	25	76	125
Sales	63,107	12,286	4,956	9,134	75,393	68,062	72,240
EBITDA	10,639	1,387	1,184	1,760	12,026	11,823	12,399
Margin	16.9%	11.3%	23.9%	19.3%	16.0%	17.4%	17.2%
D&A	1,248	424	145	347	1,672	1,393	1,595
EBIT	9,390	963	1,039	1,413	10,353	10,430	10,803
Margin	14.9%	7.8%	21%	15%	13.7%	15.3%	15.0%
Other Costs			-67	-17	0	-67	-17
Interest (Legacy)	-596	-188	-29	-127	-784	-625	-723
Interest (Additional)					-207	-336	-535
PTP	8,795	775	943	1,269	9,362	9,401	9,528
Tax Rate	31%	31%	30%	30%	31.0%	31%	31%
Tax Expense	-2,726	-242	-283	-381	-2,902	-2,914	-2,954
Minorities	-415			-9	-415	-415	-424
Net Income	5,653	533	660	871	6,045	6,072	6,150
NOSH	904	275	146	125	904	904	904
EPS ($)	6.26	1.94	4.52	6.96	6.69	6.72	6.81
Accretion ($)					0.43	0.46	0.55
Accretion (%)					7%	7%	9%
Net debt	7,879	2,132	303	715	14,616	15,656	19,988
Net debt / EBITDA (x)	0.74	1.54	0.26	0.41	1.22	1.32	1.61

Source: Company data, Credit Suisse estimates

We show GR's key financials below, and the implied acquisition multiples depending on the price that UTX might pay for GR.

Exhibit 2: Goodrich Key Financials

USD in millions, unless otherwise stated

US$, Dec y/e	2006	2007	2008	2009	2010	2011E	2012E	2013E
Sales	5,878	6,392	7,061	6,686	6,967	7,869	9,031	9,941
YoY%		9%	10%	-5%	4%	13%	15%	10%
EBITDA	886	1,131	1,358	1,179	1,273	1,595	1,760	1,956
Margin%	15.1%	17.7%	19.2%	17.6%	18.3%	20.3%	19.5%	19.7%
EBIT	645	881	1,101	929	998	1,269	1,413	1,578
Margin%	11.0%	13.8%	15.6%	13.9%	14.3%	16.1%	15.6%	15.9%
EPS	3.81	3.77	5.39	4.70	4.51	6.08	6.96	7.89
YoY%		-1%	43%	-13%	-4%	35%	15%	13%

Source: Company data, Factset, Credit Suisse estimates

Exhibit 3: Implied 2012 Acquisition Multiples

USD in millions, unless otherwise stated

	Offer Price for GR				
Implied	**$100**	**$110**	**$120**	**$130**	**$140**
EV	13,015	14,245	15,475	16,705	17,935
MV	12,300	13,530	14,760	15,990	17,220
PE	14.4x	15.8x	17.2x	18.7x	20.1x
EV/EBIT	9.2x	10.1x	11.0x	11.8x	12.7x
EV/EBITDA	7.4x	8.1x	8.8x	9.5x	10.2x
EV/SALES	1.42x	1.56x	1.69x	1.83x	1.96x

Source: Company data, Credit Suisse estimates

We show below the sensitivity of UTX's 2012 EPS to synergies and the acquisition price of GR.

Exhibit 4: 2012 EPS Sensitivity
$, unless otherwise stated

		Offer Price for GR				
	6.95	$100	$110	$120	$130	$140
Synergies	0	6.92	6.87	6.83	6.79	6.74
	40	6.95	6.90	6.86	6.82	6.77
	80	6.98	6.93	6.89	6.85	6.80
	120	7.01	6.96	6.92	6.88	6.83
	160	7.04	6.99	6.95	6.91	6.87

Source: Credit Suisse estimates

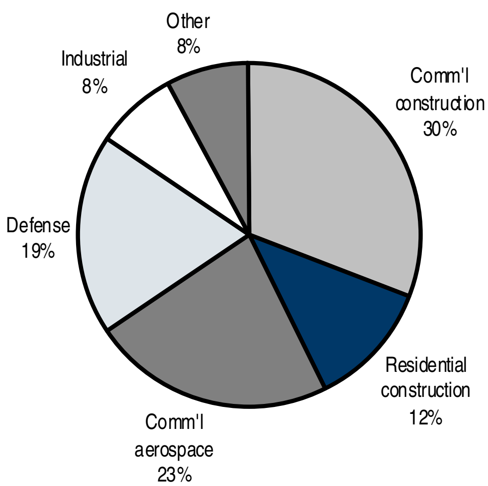
Exhibit 5: 2012 EPS Accretion Sensitivity
%, unless otherwise stated

		Offer Price for GR				
	11%	$100	$110	$120	$130	$140
Synergies	0	10.5%	9.9%	9.2%	8.5%	7.8%
	40	11.0%	10.3%	9.7%	9.0%	8.3%
	80	11.5%	10.8%	10.1%	9.5%	8.8%
	120	12.0%	11.3%	10.6%	9.9%	9.3%
	160	12.5%	11.8%	11.1%	10.4%	9.7%

Source: Credit Suisse estimates

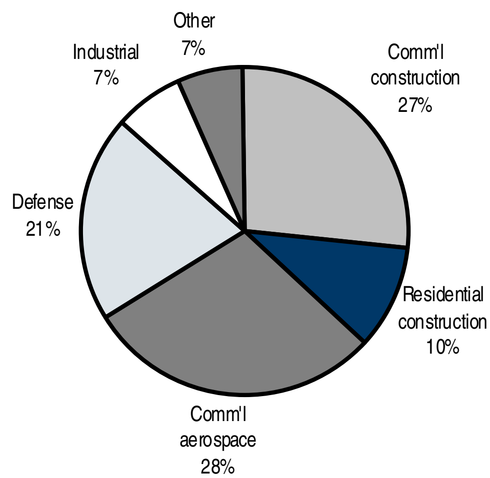
We show below the shape of the UTX business in terms of end-market sales split, if GR is consolidated.

Exhibit 6: UTX sales split by end-market, exc-GR
%, unless otherwise stated



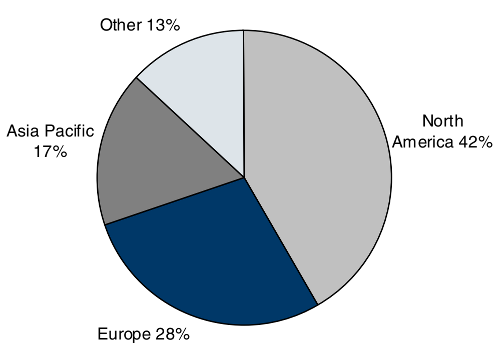
Source: Company data

Exhibit 7: UTX sales split by end-market, inc-GR
%, unless otherwise stated



Source: Company data, Credit Suisse estimates

Exhibit 8: UTX pro forma geographic sales split inc GR



Source: Company data, Credit Suisse estimates

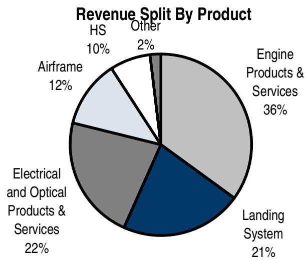
In terms of GR itself, we show a detailed description in Exhibit 9.

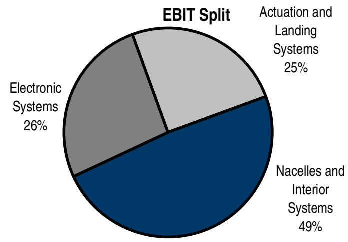
Exhibit 9: Goodrich Company Overview

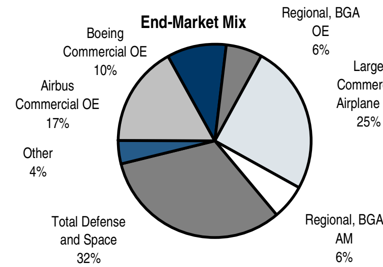
USD n millions, unless otherwise stated

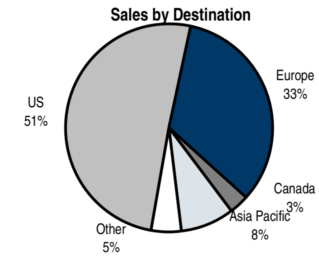
GOODRICH

TOTAL COMPANY









SEGMENT

2011E	ACTUATION AND LANDING SYSTEMS	NACELLES AND INTERIOR SYSTEMS	ELECTRONIC SYSTEMS	SEGMENT TOTAL
Sales ($B)	2.4	1.5	1.6	5.5
% of sales	45%	27%	28%	100%
Operating profit ($B)	0.4	0.7	0.4	1.4
Operating margin	14.5%	46.5%	24.2%	26.0%
% of operating profit	25%	49%	26%	100%
Customers	**Actuation Systems:** Airbus, Boeing, Eurocopter, MOD, Bombardier, Lockheed; **Aircraft Wheels & Brakes:** Global Airlines, Commercial & Military, OEM; **Landing Gear:** Boeing, Airbus, Bombardier, Lockheed & Airlines; **Engine Components**: Rolls-Royce, Honeywell, DOD, GE, UTC, Caterpillar, Sikorsky, Bell Helicopter	**Aerostructures**: Airbus, Boeing, Engine OEs, DOD, Airlines; **Interior Products Evacuation Slides**: Airbus, Boeing, Embraer, airlines; **Seating Products:** USAF, Boeing, Airbus, Cessna, airlines; **Lighting Systems:** Airbus, Bombardier, Boeing, Military, airlines; **Cargo Systems**: Boeing, Airbus, airlines	**Sensors & Integrated Systems**: Lockheed Martin, Bombardier, DoD, Boeing, Sikorsky, Airlines; **Intelligence Surveillance & Reconnaissance Systems (ISR):** US & Allied Governments, Government Labs, DARPA; **USG PrimesEngine Controls & Electrical Power Systems: Rolls Royce,** Honeywell, Turbomeca, Airbus, Dassault, GE	see chart
End market	Defense & Space: 24%; Regional, Business Aftermarket: 8%; Large Commercial Aftermarket: 25%; Regional, Business OE: 7%; Airbus Commercial OE: 13%; Boeing Commercial OE: 15%; Other: 8%	Defense & Space: 11%; Regional, Business Aftermarket: 1%; Large Commercial Aftermarket: 41%; Regional, Business OE: 6%; Airbus Commercial OE: 31%; Boeing Commercial OE: 10%	Defense & Space, OE and AM: 59%, Regional, BGA AM: 8%; Regional, BGA OE 7%; Large Commercial Aircraft Aftermarket: 13%; Airbus Commercial OE 3%; Boeing Commercial OE 2%; Other 8%	see chart
Market positioning / share	Actuation Systems: #1 Aircraft Wheels & Brakes: #1/2 Landing Gear: #1/2 Engine Components: #1/2	Aerostructures: #1 Evacuation Slides: #2 Seating Products: #1 Lighting Systems: #2 Cargo Systems: #1	#1 or #2 in all three business lines referenced below	see chart
Products sold	**Actuation Systems:** Primary & Secondary Flight Controls, Nacelle Actuation; **Aircraft Wheels & Brakes:** Wheels, Braking Systems; **Landing Gear**; **Engine Components**: Fuel Nozzles, Airfoils & Rotating Assemblies, Power Transmission Systems	**Aerostructures**: Nacelle System Structures; **Interior Products Evacuation Slides**: Inflatable Slides, Hardware & Pack Boards; **Seating Products:** Pilot & Crew Seats; **Lighting Systems:** Internal & External Lighting Systems; **Cargo Systems**: Mechanical, Electronic Cargo Systems	**Sensors & Integrated Systems**: Air Data & Engine Sensors, De-icing Products, Fuel Management, Health & Usage Monitoring, System (HUMS), Hoists and Winches, Military flight recorders; **Intelligence Surveillance & Reconnaissance Systems (ISR):** High Altitude Cameras, UAV Autopilots / Gimbals, Laser Warning Systems, Space Optical Systems; **Engine Controls & Electrical Power Systems:** Small Engine Controls, Large Engine Controls - JV, Electrical Power Systems	see chart
Competitors	**Actuation Systems:** PH; UTX; Liebherr-Holding GmbH, Moog, Nabtesco, WGOV, ETN; **Aircraft Wheels & Brakes:** HON, Messier-Bugatti (a subsidiary of SAFRAN), Meggitt, Crane, Triumph; **Landing Gear**: Messier-Dowty (a subsidiary of SAFRAN), Liebherr-Holding GmbH; Héroux-Devtek Inc.; APPH Ltd; Sumitomo Precision; GE Aviation; Loud Engineering	**Aerostructures**: Nexcelle, a JV with SAFRAN, Middle River Aircraft Systems (a subsidiary of GE); Spirit; **Evacuation Slides**: Air Cruisers (a subsidiary of Zodiac); **Seating Products**: Ipeco, Zodiac, EADS, B/E Aerospace, C&D Aerospace Group, BAE Systems; **Lighting Systems:** Page Aerospace, LSI Luminescent Systems, HON, Diehl Luftfahrt Elecktronik, Zodiac, B/E Aerospace, Astronics, Finmeccanica, **Cargo Systems:** Telair, Ancra International, AAR Manufacturing, Zodiac, B/E Aerospace; Ipeco	**Sensors**: HON, Thales, Esterline; **Fuel and Utility Systems**: HON, PH, Smiths (subsidiary of GE); **De-Icing Systems**: Zodiac, BE/E Aerospace; **Intelligence Surveillance & Reconnaissance Systems:** BAE, ITT, L-3, HON, Smiths (subsidiary of GE), Hamilton Sundstrand (a subsidiary of UTX)	see chart

Source: Company data, Credit Suisse estimates

Strategically sensible

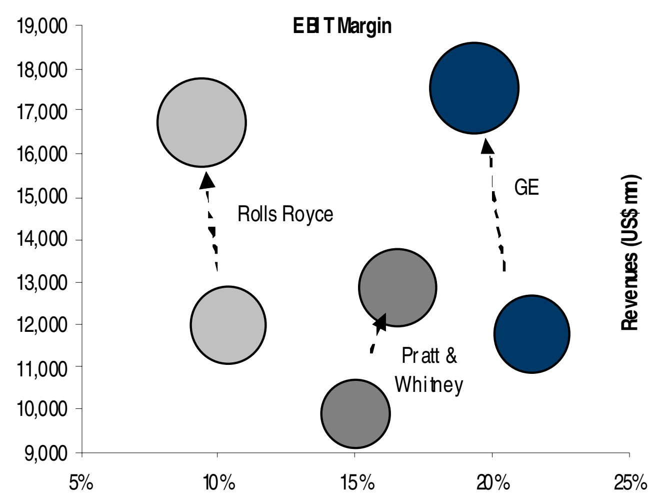
UTX has not done a large deal for some time (since the GE Security deal for $1.8bn which was completed in 2010), and, given the CEO's background in the company, it is natural that some large deals would be undertaken in one or more of the aerospace businesses. We think the deal makes sense from a strategic standpoint for the following reasons:

- Renewed momentum in the Aerospace portfolio at UTX;
- UTX is acquiring a high growth, high quality company;
- GR is not hugely cyclical, and has high aftermarket content;
- The deal is a focused one, and should be valuation multiple-enhancing;
- UTX is buying a 'known quantity'; the deal is not a leap into 'white space'.

Revamping the Aerospace Portfolio at UTX

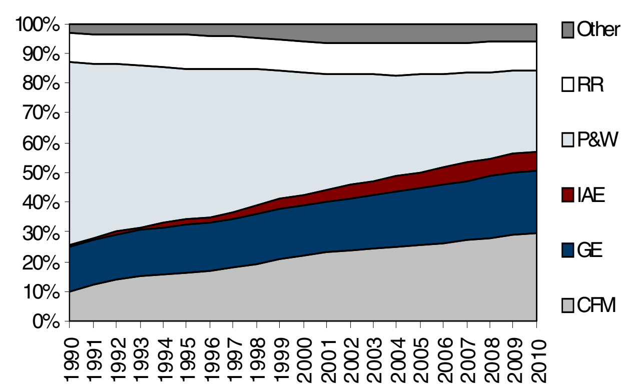
UTX has been seen by investors to have lost ground in Aerospace in recent years, and the weak outlook for US Defense spending has also cast a shadow over the long-term growth prospects for the business. This is important for the stock, as P&W, Sikorsky, and HS account for 45% of group sales and group earnings. In P&W for instance, UTX has lost ground against GE and RR.

Exhibit 10: Aviation Sales and EBIT Margin (2005 vs. 2010)
$ in millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Exhibit 11: Market Share of Installed Base
%, unless otherwise stated

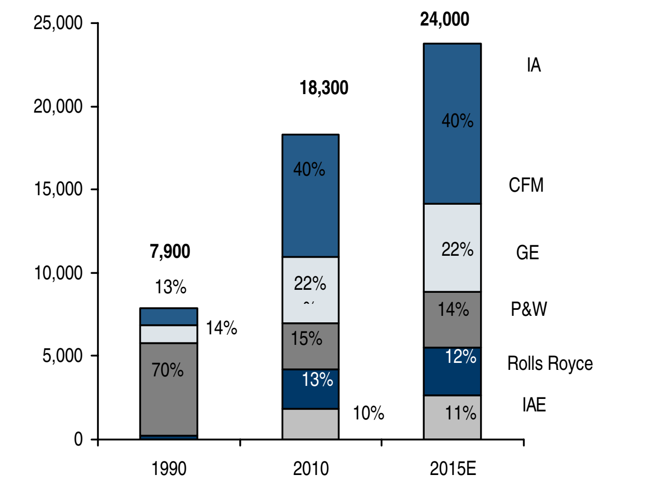


Source: Company data, Credit Suisse estimates

In terms of the outlook, although the GTF will indeed help the positioning of Pratt, given its success to date at winning share on the Airbus A320 NEO, the positive effects on earnings and cashflow for UTX may not become apparent until the end of this decade, with GE / Safran likely to continue to dominate commercial aircraft engine market share.

Exhibit 12: Market share of deliveries

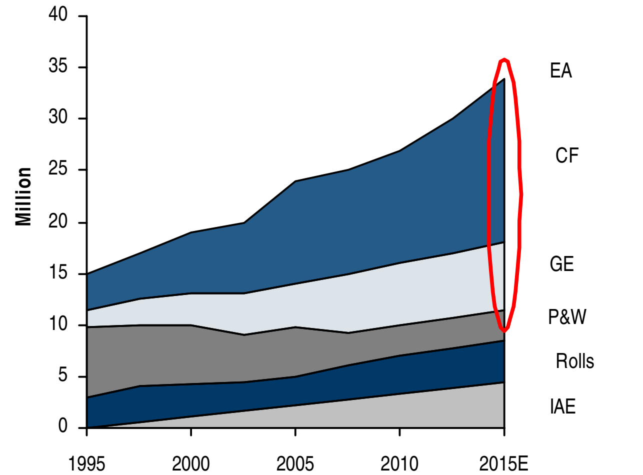
units, unless otherwise stated



Source: GE

Exhibit 13: Installed Base Trajectory - Departures

Number of departures, unless otherwise stated



Source: GE

While the GTF does represent a first stage in rejuvenating the Aerospace portfolio at UTX, the decision of Boeing to go with a re-engined 737 (the MAX), rather than a 'clean sheet' aircraft, has meant the earliest Pratt can enter service on a new Boeing narrowbody is likely to be 15 years out or more. Also, on the A320 NEO itself, Safran is claiming 63% market share now, as the LEAP engine has gained huge momentum on the NEO since the Paris Air Show in June 2011. As shown in Exhibit 14, GE has by far the broadest product portfolio in aircraft engines, which means it will likely retain an advantage against UTX for some time to come in this area.

Exhibit 14: Aircraft engine portfolios at the 3 major engine developers

x, unless otherwise stated

GE Aviation

	Genx	GP7000	CFM -LEAP X	CFM56-5B	CFM56-7B	CFM56-5C	CFM56-3	CFM56-5A
Thrust (lbs.)	53k-75k		18k-35k	22K - 33K	18.5K-27.3K	31.2K-34K	18.5K-23.5K	22K-26.5K
	Genx		CFM56 Family					
Mass Flow (lbs/sec)				810-968	677-792	1,025-1,065	638-710	816-876
Bypass Ratio			10	5.4-6	5.3-5.5	6.4-6.6	4.9-5	6-6.2
Dry Weight (lbs.)				5.3K	5.3K	9K	4.3K	5K
Length (in)				102.4	103.5	103	93	95.4
Applications	Boeing 787, Boeing 747-8	Airbus A380	A320neo, Comac C919	A320 family-A318/A319/A320/A321	Boeing (737-600/-700/-800/-900/-900ER/BBJ)	Airbus A340-200 and A340-300 aircraft	Boeing 737-300/400/500	A320 family

	GE90-94B	GE90-115B	CF6-6	CF6-50	CF6-80A	CF6-80C2	CF6-80E1	CF34-10	CF34-8	CF34-3	CT7-2	CT7-6/-6A	CT7-8	CT7-9
Thrust (lbs.)	94K	110K-115K	40k-72k					9.2k-20k			1.7k-2.8k			
Category	GE 90 Family		CF6 Family					CF 34 Family			CT7 Family			
Bypass Ratio			5.76-5.92/5.89	4.24-4.4	4.59-4.66	5-5.31	5-5.1	5.1	5.1	6.2:1				
Max Diameter (in)	134	135	105	105	105	106	114	57	52-53.4	49	15.6	15.6	26	29
Dry Weight (lbs.)	16.644K	18.260K	8,176-8,966	8,966-9,047	8,760-8,776	9,480-9,860	11,225	3700	2,408-2,600	1,625 - 1,670	429-466	493	542	807
Length (in)	287	287	188	183	167	168	168	90-145.5	121.2-128	103	46	47	48.8	96
Applications	Boeing 777-200, Boeing 777-200 ER	Boeing 777-200LR, Boeing 777-300ER, Boeing 777 Fighter	DC-10-10	Airbus A300B, DC-10-15/-30, Boeing 747-300, KC-10, E-4	Airbus A310-200, Boeing 767-200	Airbus A300-600/R/F, A310-200/-300, Boeing 767/747, MD-11, CX Japanese Transport	Airbus A330-200/-300, A330 Tanker	ACAC ARJ21, EMBRAER 190/195, EMBRAER Lineage 1000	Bombardier CRJ700/900, Bombardier Challenger 870/890, EMBRAER 170/175	Bombardier CRJ100/-200, Bombardier Challenger 850	B214ST, S-70C	AW101	S-92/H-92, Cormorant, NH90, MH-60K, VH-71	EADS CASA CN-235

Rolls Royce Trent Family

	Trent 970	Trent 970B	Trent 972	Trent 972B	Trent 977	Trent 977B	Trent 980-84	Trent 1000-A	Trent 1000-C
Static Thrust (lbf)	75,152	78,304	76,752	80,231	80,781	83,835	84,098	63,800	69,800
Basic Engine Weight (lb)	13,842	13,842	13,842	13,842	13,842	13,842	13,842	11,924	11,924
Thrust to Weight Ratio	5.4	5.6	5.5	5.8	5.8	6	6	5.4	5.9
Length (in)	179	179	179	179	179	179	179	160	160
Fan Diameter (in)	116	116	116	116	116	116	116	112	112
Entry Into Service	2007	TBA	TBA	TBA	TBA	TBA	TBA	2008	2008
Applications	Airbus A380-841	Airbus A380-841	Airbus A380-842	Airbus A380-842	Airbus A380-843F	Airbus A380-843F	Airbus A380-941	Boeing 787-8	Boeing 787-8,9

	Trent 1000-D	Trent 1000-E	Trent 1000-H	Trent 1000-J	Trent 1000-K	Trent XWB-75	Trent XWB-84	Trent XWB-93
Static Thrust (lbf)	69,800	53,200	58,000	73,800	73,800	75,000/ 79000	84,000	93,000
Basic Engine Weight (lb)	11,924	11,924	11,924	11,924	11,924	---	---	---
Thrust to Weight Ratio	5.9	4.5	4.9	6.2	6.2	---	---	---
Length (in)	160	160	160	160	160	---	---	---
Fan Diameter (in)	112	112	112	112	112	118	118	118
Entry Into Service	2008	2010	2008	2010	2010	2014	2013	2015
Applications	Boeing 787-8,9	Boeing 787-3	Boeing 787-3, 787-8	Boeing 787-9	Boeing 787-9	Airbus A350-800 XWB	Airbus A350-900 XWB	Airbus A350-1000 XWB

P&W PurePower PW1000G Family

	PW1215G/PW1217G	PW1521G/PW1524G	PW1124G/PW1127G/PW1133G	PW1400G
Thrust (lbs.)	15 -17K	21-23K	24-33K	24-33K
Noise (vs. stage 4)	-15 dB	-20 dB	-20 dB	-20 dB
Emissions–CO2 reduction per a/c (tonnes annually)	-2,700	-3,000	-3,600	-3,600
Emissions–NOx (margin to CAEP 6)	-50%	-55%	-55%	-55%
Fan diameter (inches)	56	73	81	81
Stage count	1-G-2-8-2-3	1-G-3-8-2-3	1-G-3-8-2-3	1-G-3-8-2-3
Applications	MRJ	CSeries	A320neo	MS-21
Entry into service	2014	2013	Late 2015	2016

P&W PurePower PW1000G Family

	PW1215G/PW1217G	PW1521G/PW1524G	PW1124G/PW1127G/PW1133G	PW1400G
Thrust (lbs.)	15 -17K	21-23K	24-33K	24-33K
Noise (vs. stage 4)	-15 dB	-20 dB	-20 dB	-20 dB
Emissions–CO2 reduction per a/c (tonnes annually)	-2,700	-3,000	-3,600	-3,600
Emissions–NOx (margin to CAEP 6)	-50%	-55%	-55%	-55%
Fan diameter (inches)	56	73	81	81
Stage count	1-G-2-8-2-3	1-G-3-8-2-3	1-G-3-8-2-3	1-G-3-8-2-3
Applications	MRJ	CSeries	A320neo	MS-21
Entry into service	2014	2013	Late 2015	2016

Source: Company data, Credit Suisse estimates

Hamilton Sundstrand is doing fairly well, but most of the revenue growth in 2010 and 2011 is being driven by its industrial assets (compressors, pumps) rather than the A&D units.

Exhibit 15: Y-o-Y change in revenues in Hamilton Sundstrand
%, unless otherwise stated

	1Q 11	2Q 11	3Q 11E	4Q 11E
Aero OE	5.0%	10.0%	12.0%	13.0%
Aero AM	12.5%	13.5%	4.9%	1.9%
o/w spares	20.0%	23.0%	10.0%	7.0%
o/w provisioning	-2.0%	-5.0%	-5.0%	-8.0%
Industrial	12.0%	20.0%	14.0%	14.0%
Military	-2.0%	-1.0%	-2.0%	-3.0%
o/w OE	-11.0%	-15.0%	-10.0%	-4.0%
o/w AM	5.0%	5.0%	5.0%	5.0%
Total change	9.2%	10.5%	7.0%	6.3%

Source: Company data, Credit Suisse estimates

The benefit of Goodrich is that it will give UTX strong positions on existing and future aircraft platforms at both Airbus and Boeing.

Exhibit 16: GR positioning on key commercial aircraft platforms
$ in millions, unless otherwise stated

Aircraft	$M / aircraft	Description
B-737NG	0.90	wheels and brakes - landing gear
B-747-8	4.50	wheels and brakes - landing gear
B-767	1.50	
B-777	2.50	wheels and brakes - landing gear
B-787	3.50	No landing gear, mostly Nacelles
A-320 Family	1.50	Nacelles, thrust reversers
A-330	2.50	depends on engine selection, nacelles and actuatior
A-340	2.50	depends on engine selection, nacelles and actuatior
A-380	7.00	wheels and brakes - landing gear
A-350	3.50	

Source: Company data, Credit Suisse estimates

The deal will also make UTX the broadest product supplier in the aerospace industry; on top of UTX being one of the top 3 engine suppliers in the world, and a leading supplier of flight control systems, auxiliary power and engine control systems (in HS), GR's portfolio will bring a host of aerospace structure related products and aftermarket.

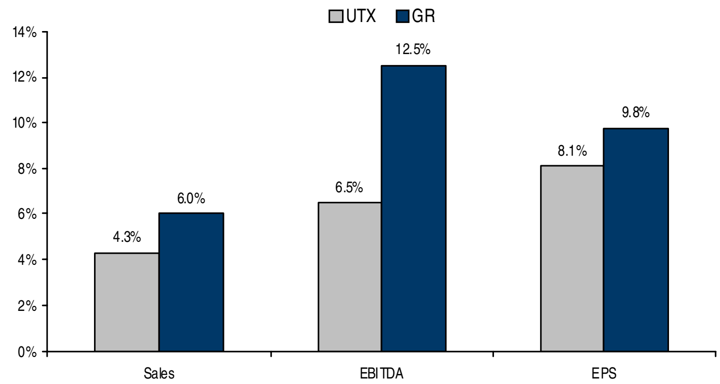
Acquiring a high growth, high quality company

Aside from the specific products within the GR portfolio, GR offers very attractive growth and returns metrics, which suits UTX given it is one of the highest quality companies within our coverage universe.

From a growth standpoint, we note below the 5-year CAGRs of the two companies on sales, op profit and EPS – GR is consistently higher than UTX.

Exhibit 17: 2006-2011 CAGRs

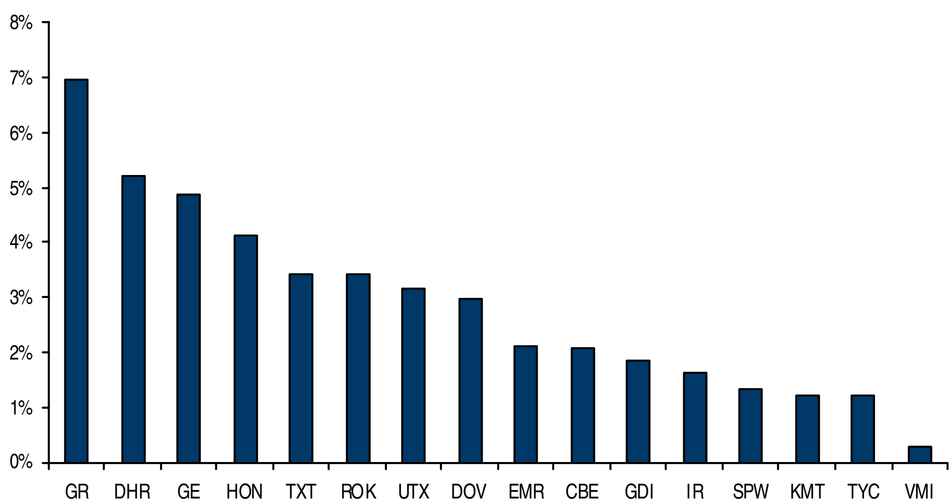
%, unless otherwise stated



Source: Company data, Credit Suisse estimates

GR's R&D / sales ratio is fairly high, implying high barriers to entry; Aerospace is also an industry where market shares tend to be fairly 'sticky'.

Exhibit 18: Average R&D / sales 2004-2010



Source: Company data, Credit Suisse estimates

Looking at the three businesses inside GR, we note that they are all earning a double-digit operating margin, suggesting limited need for UTX to undertake any major turn-around or restructuring activities at any of the segments. We show below the EBIT bridges and operating margins for 2009 and 2010 for the 3 units and the total company. Incremental / decremental margins tend to be quite high, at around 30-40% in the last two years.

Exhibit 19: EBIT bridges and op margins at GR

$ in millions, unless otherwise stated

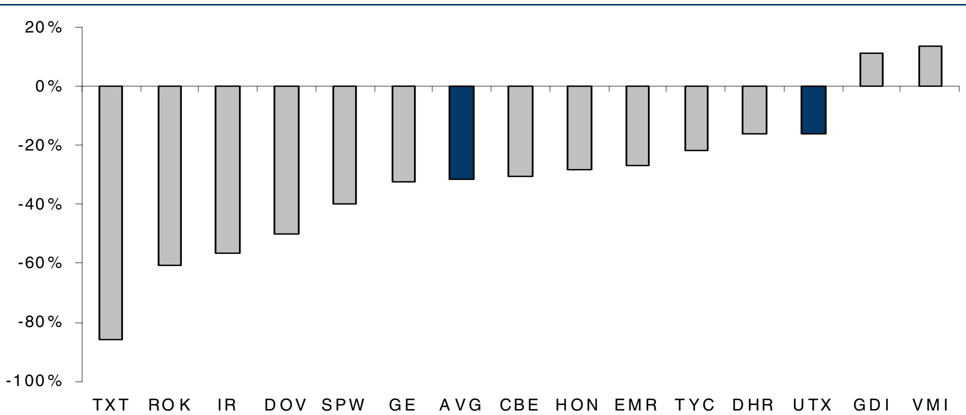
2010	Actuation and Landing Systems	Nacelles and Interior Systems	Electronic Systems	Total
Start profit	266.9	515.3	276.4	1058.6
Volume / mix	-25	-33	49	-9
Price / cost	23	24	6	53
FX	8	-4	0	4
Ests for LT contracts	5	53	0	58
Restructuring	0	0	-5	-5
Other	-5	1	-2	-6
End profit	273.1	555.9	324.9	1153.9
Change in profit	6.2	40.6	48.5	95.3
EBIT margin	**11.0%**	**23.8%**	**15.2%**	**16.6%**
Total incremental margin	**-19%**	**240%**	**16%**	**34%**
2009	**Actuation and Landing Systems**	**Nacelles and Interior Systems**	**Electronic Systems**	**Total**
Start profit	300	647.5	268.8	1216.3
Volume / mix	-55	-144	-42	-241
Price / cost	100	95	53	248
FX	-9	7	0	-2
Ests for LT contracts	-30	-35	0	-65
Restructuring / pension	-39	-55	-23	-117
Other	0	0	20	19
End profit	266.9	515.3	276.4	1058.6
Change in profit	-33.1	-132.2	7.6	-157.7
EBIT margin	**10.6%**	**22.2%**	**15.0%**	**15.8%**
Total incremental margin	**37%**	**82%**	**-6%**	**42%**

Source: Company data, Credit Suisse estimates

High aftermarket, low earnings cyclicality

Aftermarket revenues represent 43% of GR's revenues in the 1H11, against around 45% of total UTX sales today. High aftermarket content is a key reason why UTX tends to have fairly smooth earnings and cash flow, which are substantially less volatile than the earnings of our EE/MI sector.

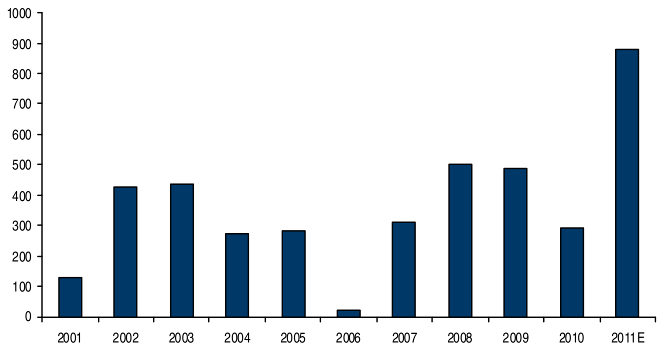
Exhibit 20: 2009 EPS decline for the EE / MI sector



Source: Company data, Credit Suisse estimates

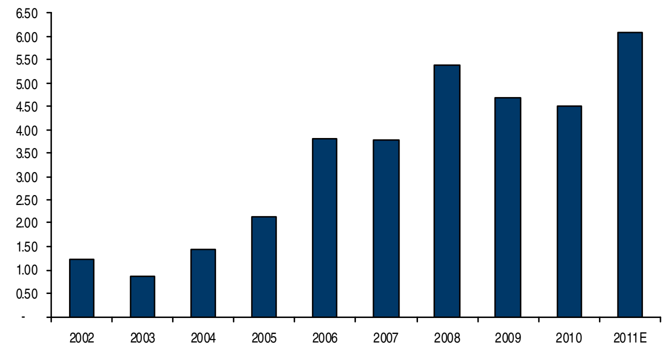
GR should therefore fit well with UTX's operational model; we show below for instance that GR saw only a limited drop in earnings during the recent downturn, and its free cash generation has been fairly smooth as well.

Exhibit 21: GR FCF
$ in millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Exhibit 22: GR EPS
$, unless otherwise stated

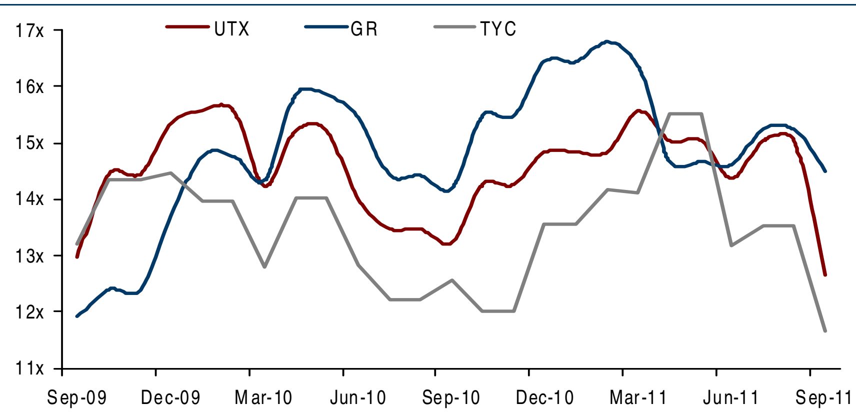


Source: Company data, Credit Suisse estimates

Focused acquisition, should be multiple enhancing

UTX has been linked in media reports this year (Bloomberg) with a number of other potential targets, such as Tyco. We think that buying a focused company such as GR is likely to prove more accretive to the valuation multiple that UTX trades at, than buying a low growth, large, diversified business such as Tyco.

Exhibit 23: Forward P/E multiples
x, unless otherwise stated



Source: Datastream

GR is a known quantity

Goodrich and the various aerospace assets at UTX will have come into frequent association in the course of doing business, and the CEO of UTX clearly is very familiar with GR given his aerospace background. As a most recent example, Goodrich was selected by Airbus to design the nacelle and thrust reversers for the P&W GTF engine for the A320 NEO aircraft. Goodrich already supplied the nacelle to the existing A320.

This should increase the chances that the integration of GR will prove succesful, if the deal goes ahead, than if UTX was adding another 'leg' to its portfolio of businesses (as GE found in the last cycle in industries such as water).

Tactically sensible

Aside from longer-term considerations, we think the deal makes sense given:

- Deal should be earnings accretive in Year 1;
- UTX has a strong balance sheet;
- UTX has not done any major aerospace deals recently and so will be able to focus on integrating GR;
- Aerospace cycle should still have substantial upside left in it.

EPS accretion

We showed in the Investment Summary the accretion scenarios depending on synergy numbers and take-out price. We show below the 2012 earnings accretion for UTX assuming no synergies and a $125 take-out price, and different sales growth and margin assumptions for GR next year; generally, we think the deal could be accretive to the tune of around 9% in this scenario (assuming the deal is all debt-financed).

Exhibit 24: 2012 EPS Sensitivity
USD, unless otherwise stated

		GR 2012 Sales Growth				
	6.81	4%	8%	12%	16%	20%
GR 2012 EBIT Margin	13.5%	6.60	6.64	6.67	6.70	6.74
	14.5%	6.67	6.70	6.74	6.78	6.81
	15.5%	6.73	6.77	6.81	6.85	6.89
	16.5%	6.80	6.84	6.88	6.92	6.96
	17.5%	6.86	6.91	6.95	6.99	7.04

Source: Credit Suisse estimates

Exhibit 25: 2012 EPS Accretion Sensitivity
% unless otherwise stated

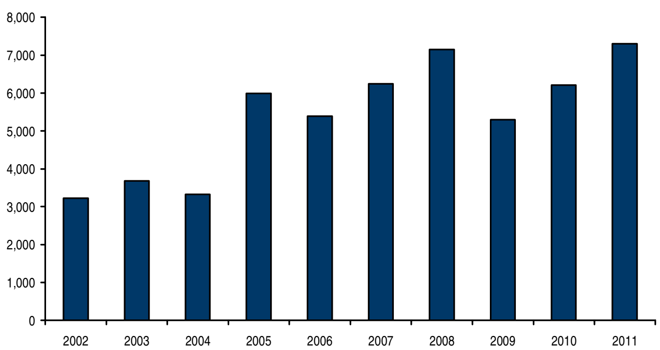
		GR 2012 Sales Growth				
	6.87	4%	8%	12%	16%	20%
GR 2012 EBIT Margin	13.5%	6%	6%	7%	7%	8%
	14.5%	7%	7%	8%	8%	9%
	15.5%	8%	8%	9%	9%	10%
	16.5%	9%	9%	10%	11%	11%
	17.5%	10%	10%	11%	12%	12%

Source: Credit Suisse estimates

Balance sheet is cash-rich; deal can be debt-financed

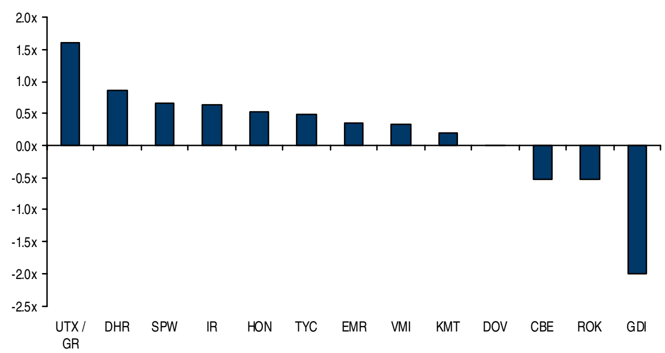
We do not think that UTX needs to issue equity in order to finance an acquisition of GR. Assuming a take-out price of $125, this would drive a net debt / EBITDA for UTX of around 1.6x. We note that this seems quite low, particularly given the relatively non-volatile nature of UTX's earnings and cash flow (and the same is true of GR).

Exhibit 26: UTX Net Debt
$ in millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Exhibit 27: 2012 Net Debt to EBITDA
x, unless otherwise stated



Source: Credit Suisse estimates

UTX has been quiet on the deal front

As we show below, industrial M&A has been warming up in the past 12 months, and deals are still taking place even as the macro outlook has deteriorated. UTX has not undertaken a major deal since buying GE Security last year; we therefore think this mitigates the risk that an integration of GR is somehow compromised as management attention will not be focussed on it.

Exhibit 28: Global industrial M&A activity

x, unless otherwise stated

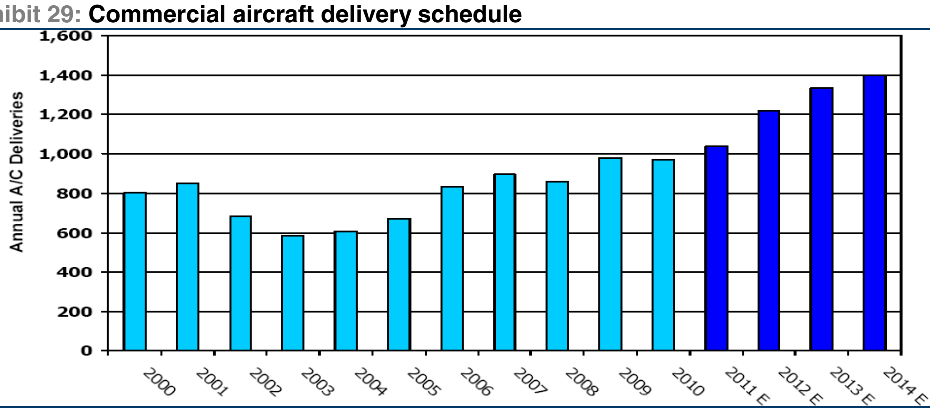
			EV/Trailing 12 Mo's			EV/NTM		
Announce Date	Acquiror	Target	Sales	EBITDA	EBITA or EBIT	Sales	EBITDA	EBITA or EBIT
12-Sep-11	Colfax Corp	Charter International	0.9	7.6	9.1	0.8	7.2	
2-Sep-11	Smiths Group	Power Holdings Inc				1.5	8.4	10.0
31-Aug-11	Cameron Intl	LeTourneau's Drilling Segment		11.0	14.4			
31-Aug-11	Timken	Drives LLC	0.9					
25-Aug-11	SPX Corp	ClydeUnion Pumps	2.6			1.7	12.0	
22-Aug-11	Electrolux	Compania Techno Industrial	1.2	7.4	8.0			
18-Aug-11	Cree	Ruud	2.6					
15-Aug-11	Spectris	Omega Engineering	2.8		12.0			
27-Jun-11	StanleyBlack&D	Niscayah	1.2	14.1		1.2	13.3	
15-Jun-11	Sensata	Sensor-NITE	2.4					
13-Jun-11	Honeywell	EMS Technologies	1.3	12.4		1.1	9.5	
9-Jun-11	Schneider	Leader Harvest	5.2	26.0	30.6	4.3	21.7	25.5
6-Jun-11	KDI	Dynacast	1.4	7.7	9.1	1.3	6.6	7.7
1-Jun-11	Schneider	Telvent	1.8	11.6	17.1	1.7	10.5	14.2
20-May-11	Toshiba	Landis & Gyr	1.4	10.7				
7-Apr-11	Sulzer	Cardo Flow	1.9	12.8				
29-Mar-11	GE	Converteam	2.4	14.9	16.5	1.9	11.4	13.4
13-Feb-11	GE	Well Support (John Wood)	3.0	16.9	22.2	2.5	14.0	17.5
7-Feb-11	DHR	BEC	1.9	8.9	15.0	1.8	8.0	13.9
13-Jan-11	GE	Lineage	1.2	8.0	8.7			
3-Jan-11	DOV	Harbison Fisher	2.1	10.1	15.5	2.5	8.9	13.4
22-Dec-10	DOV	Sound Solutions	2.6	9.3	17.8	2.4	8.1	16.1
16-Dec-10	Assa Abloy	Cardo	1.3	10.1	12.1	1.2	9.1	10.8
13-Dec-10	GE	Wellstream	3.0	20.4	28.4	2.3	13.3	16.3
15-Nov-10	CAT	BUCY	1.8	10.4				
22-Oct-10	GE	Clarient	5.8	42.0	59.0			
6-Oct-10	GE	Dresser	1.5	8.3	9.4			
27-Jul-10	Onex / Others	Tomkins PLC	1.2	11.2		1.1	7.8	
29-Jun-10	EMR	Chloride	3.1		22.2	2.4		20.7
21-Jun-10	ITT	Godwin Pumps of America	2.9			2.5		
		Average	**2.4**	**13.9**	**18.4**	**2.4**	**11.9**	**15.2**

Source: Company data, Credit Suisse estimates

Early in the cycle still for Commercial OE

GR's Commercial OE business comprises 35% of sales (1H11), and the company is well-positioned on key growth platforms like the Boeing 787 and the Airbus A350. The sharp expected ramp in production schedules at the major commercial aircraft OEMs should therefore offer substantial growth for this piece of the business for the medium term.

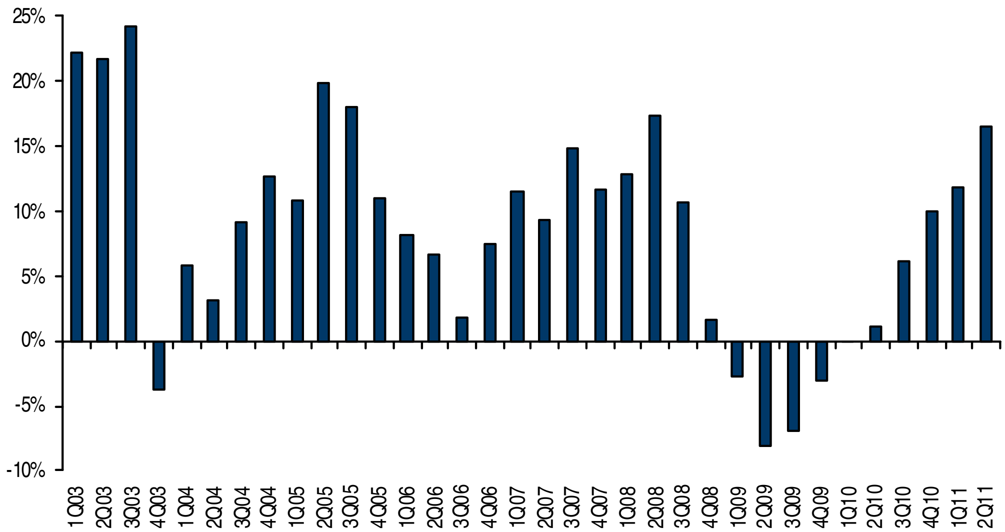
Exhibit 29: Commercial aircraft delivery schedule



Source: Company data, Credit Suisse estimates

Looking at the below exhibit suggests that while the revenue growth rate at GR is likely to be at a peak for this cycle, growth itself is likely to continue for some time.

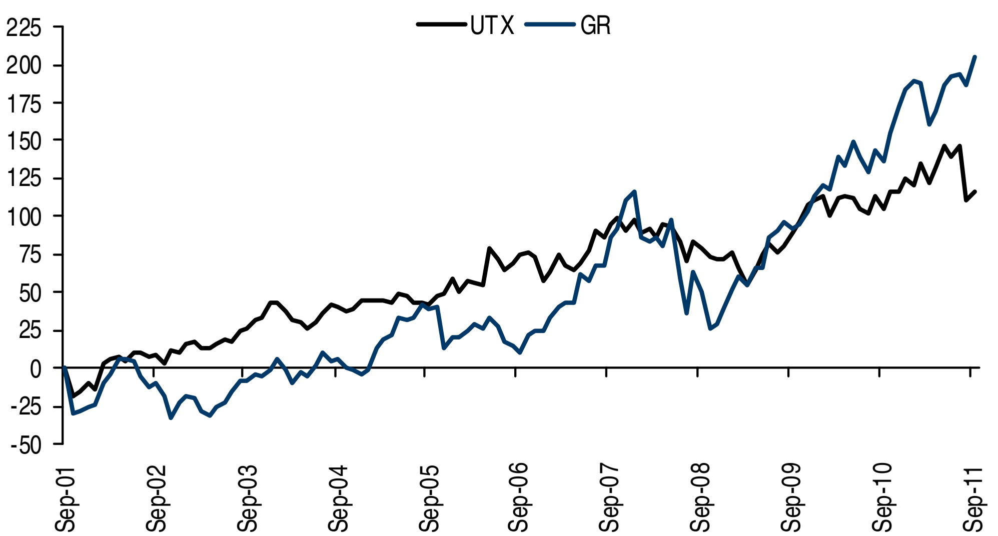
Exhibit 30: Y-o-Y revenue growth at GR
%, unless otherwise stated



Source: Company data, Credit Suisse estimates

In terms of share price performance, when we look at GR's performance relative to the S&P, we can see that its strongest period of outperformance came fairly late in the last industrial cycle.

Exhibit 31: Relative share price performance to the S&P
Rebased to 0, unless otherwise stated



Source: Datastream

Risks

Will engine OEMs desert the GR nacelle business?

One area where investors appear to be worried about revenue dis-synergies regarding a potential transaction, is around the Nacelles and Interiors business, which comprises around half of GR's profits. This is becase the nacelle (the structure around the engine, and associated components) tends to be designed and developed independently of the aircraft frame, and of the aircraft engine. Hence, there might be some risk that other aircraft engine developers (GE, Rolls Royce) are more reluctant to work with the GR nacelle business if it is part of the same company that owns P&W (one of the top 3 engine developers globally).

We think this is a risk, but likely to be a fairly small one, and could even comprise something of an opportunity.

A key reason for our view is that Safran and GE, who are the dominant players in the commercial narrowbody aircraft engine market (via the CFM JV), appear to be gaining decent traction with their Nexcelle JV. As a reminder, the CFM International 50/50 JV between Safran (as it is called today, or Snecma historically) and GE was established in 1974. One of Safran's businesses is Aircelle (part of its Aircraft Equipment segment), which is one of the leading nacelle, thrust reverser and aerostructure providers globally (supplying nacelles for the Airbus A380 for example). Middle River Aircraft Systems (MRAS) is part of GE Aviation, and is a business which supplies thrust reversers and aerostructures. In July 2008 (at the Farnborough Air Show), GE Aviation (MRAS) and Safran (Aircelle) announced they would be establishing a nacelle JV (which came to be designated Nexcelle in 2009). Nexcelle is based in Ohio, with the President (Steve Walters) having previously been GE's director of Business Operations for the CM56 program.

The experience so far of Nexcelle is that it actually benefits from the relationships with the parents of its parent companies – GE and Safran. For instance, Nexcelle was selected as the nacelle developer for the LEAP-X1C integrated propulsion system for the COMAC C919 aircraft in China, and Nexcelle participates in CFM International's Program Review Meetings with COMAC. The MRAS parent of Nexcelle includes P&W among its customers for thrust reversers; it remains to be seen whether this will continue if UTX buys GR.

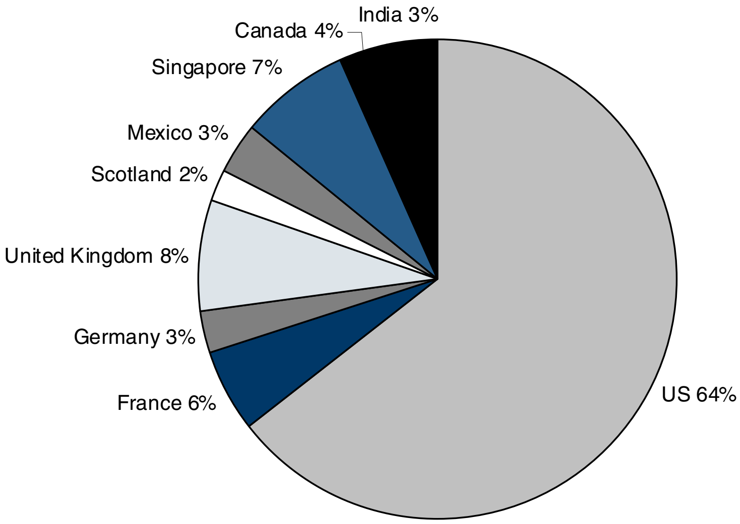
GR margins are set to peak soon?

GR's aftermarket sales growth rates are likely to peak now, with OE sales set to gain a greater share of the mix until the end of this decade (when the first 787s for example will start to require post-warranty servicing). This may mean that further gains in margins are tough to squeeze out, particularly given the expansion in operating margins that have already taken place (op margins were 11.5% in 2005, against 17.5% in 2011E).

While this is a risk, we note that:

- Further restructuring of the existing business may still be possible (GR announced it is closing its Marble Avenue landing gear facility in Cleveland, Ohio by the end of 2012, which will account for around $37m in pre-tax charges, with $15m coming in 2012). We show below that almost two thirds of GR's square footage is in the US, against around 50% of sales.

Exhibit 32: Split of GR manufacturing sg footage by region, 2010



Source: Company data

- Margins are still likely to remain above UTX average margins: Our A&D team do not expect GR's operating margins to contract, and they see a path for them moving to the 18-19% range, which is well above the overall UTX group EBIT margin of 14%.

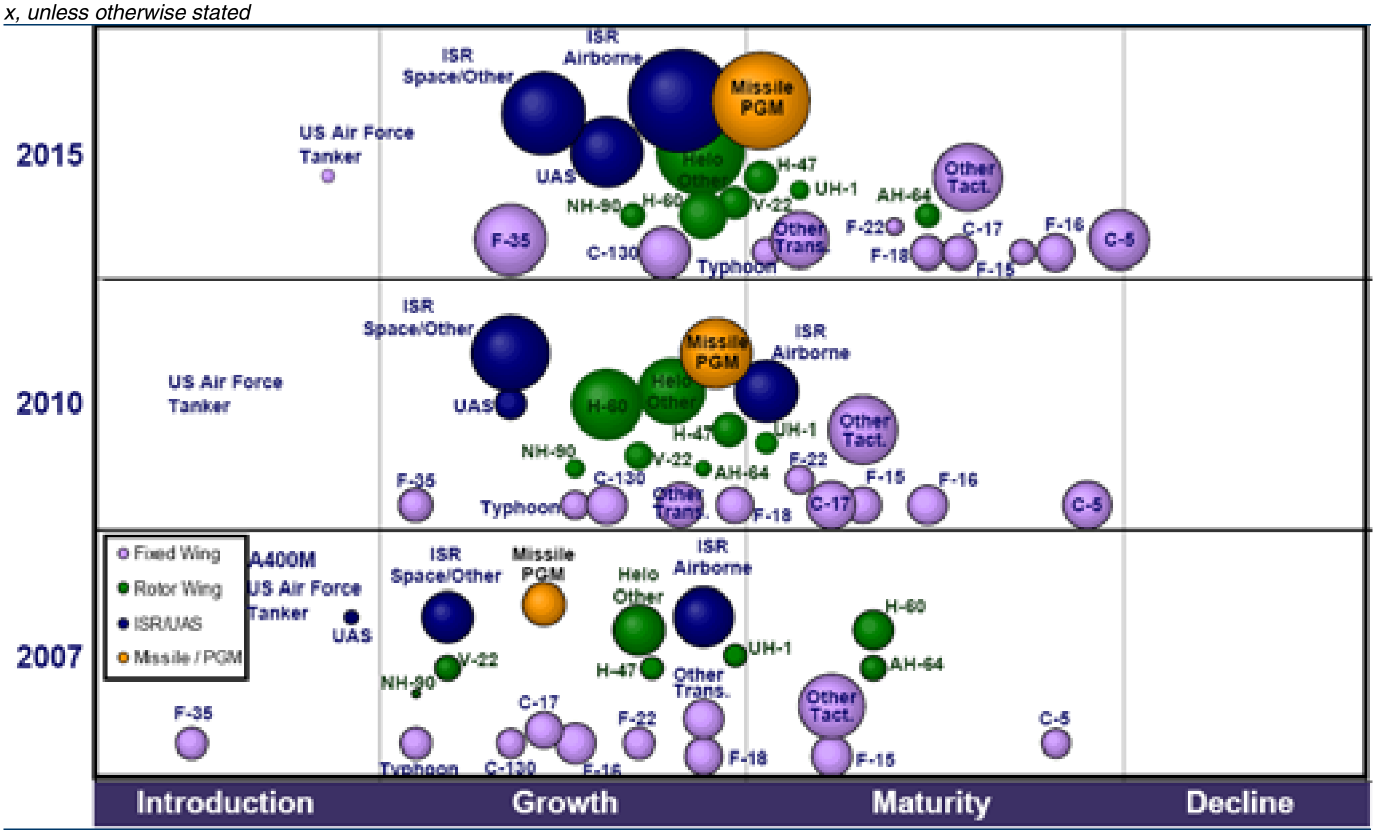
The equity market might not like large deals?

The equity market tends to be more sceptical around big transactions when equity markrets are volatile and the economic outlook is highly uncertain, which is the case today. We note that two other companies in our sector that have undertaken large deals (DHR and SPW) this year have seen their share prices seemingly suffer from this. However, we think that the relatively low degree of cyclicality in GR's business model, its good top-line growth outlook (unlike BEC) and the fact that UTX's balance sheet would still not show much leverage even if the deal is all debt-financed (unlike SPW) should mean its stock price does not suffer too much if a deal is undertaken.

Defense risk

Defense comprises 32% of GR's 2010 sales, and clearly the outlook for US Defense spending is considerably dimmer now than it was in the prior cycle. However, our A&D analysts believe that the business should still be able to sustain some growth in the coming years, given its positioning in ISR products.

Exhibit 33: GR: Broad Defense Portfolio
x, unless otherwise stated



Source: Goodrich

What might UTX do next?

Looking at UTX's portfolio, if the GR revenues were to be combined with those of HS Aerospace revenues ($4-5bn), would drive a total annual business size of $12bn+. This would fit the CEO's stated ambition to have $10bn revenue businesses within UTX.

The company would then be left with the industrial revenues inside HS, which comprise products such as compressors and pumps, and which have annual sales of around $1.2bn, and a Fire & Security business which even after the GE deal, still has annual sales of only $7bn this year, on our estimates. We think that, following any GR deal, UTX might then potentially sell off the industrial assets inside HS today, or else look to build them up into a 7th business unit, as well as continue to add to F&S revenues in order to bring them towards the $10bn run-rate sales level.

We show below our product matrix for the construction sector to show where UTX currently plays; there is a chance that, as in aerospace, it seeks to diversifty beyond its current positions within "the building".

Exhibit 34: Construction Matrix

	Market Participants	Security Only	F + S	HVAC	Lighting	Low voltage	Elevators & Escalators	Water
North America	Acuity				x			
	Brac Systems							x
	Cooper		x		x	x		
	CREE				x			
	Eaton					x		
	Emerson			x				
	GE				x			
	Honeywell		x	x				
	Hubbell				x	x		
	Ingersoll-Rand	x		x				
	Johnson Controls			x				
	Lennox			x				
	Littlefuse					x		
	Stanley Black & Decker	x						
	Thomas & Betts			x	x	x		
	Tyco		x					
	UTC		x	x			x	
Europe	ABB	x	x	x	x	x		x
	Assa Abloy	x						
	Danfoss			x				
	Dialight				x			
	Geberit							x
	Kaba	x						
	Kone						x	
	Legrand					x		
	Philips				x			
	Schindler						x	
	Schneider					x		
	Siemens		x		x	x		
	Thyssen Krupp						x	
	Uponor							x
	Veolia							x
	Wavin							x
	Zumtobel				x			
Asia	Daikin			x				
	Secom	x						

Source: Company data

Valuation

We show below our target price methodology for UTX.

Exhibit 35: Target Price Derivation
USD, unless otherwise stated

Valuation Method	Price	Assumptions
HOLT	90	18% CFROI
SOTP	88	-
DCF	91	4% growth, 13.5% OM, WACC 8.8%
EV/EBIT	92	9.6x EV/EBIT
P/E	91	14.5x P/E
Average	**91**	**Blended average**

Source: Company data, Credit Suisse estimates

We show our SOTP for UTX below.

Exhibit 36: SOTP
$ in millions, unless otherwise stated

2012E	Sales	Adj. EBIT	Margin	EV/Sales Base case	EV/EBIT Base case	EV $bn Base case
Otis	13,643	3,141	23.0%	2.4	10.6	33,338
Carrier	13,423	1,730	12.9%	1.2	9.2	15,884
Fire & Security	7,529	1,053	14.0%	1.3	9.5	10,025
Pratt & Whitney	14,753	2,260	15.3%	1.2	7.6	17,222
Industrial	1,219	244	20.0%	1.5	7.7	1,869
Aerospace	5,106	924	18.1%	1.5	8.3	7,624
Hamilton Sundstrand	6,325	1,168	18.5%	1.5	8.1	9,493
Sikorsky	7,434	865	11.6%	1.0	8.7	7,479
Total Segment	**63,107**	**10,217**	**16.2%**	**1.5**	**9.1**	**93,441**
Eliminations	0	(717)		NM	9.0	(6,416)
Total consolidated	**63,107**	**9,500**	**15.1%**	**1.4**	**9.2**	**87,025**
Net debt						3,706
Other EV adjustments						4,174
Market cap						79,145
NOSH						895
Share price						**88**

Source: Company data, Credit Suisse estimates

In terms of the 3-scenario analysis (which we stick with given the ongoing macro volatility), we note that UTX offers below-average downside in our bear scenario, and looks near fair value in a low growth environment. An acquisition of GR should enhance its growth profile, and the valuation multiple that investors acribe to it.

Exhibit 37: Scenario Up/Downside Summary and Valuation

Upside/Downside	CBE	DHR	DOV	EMR	GDI	GE	HON	IR	KMT	ROK	SPW	TXT	TYC	UTX	VMI	EE/MI
Upside / Downside																
Base Scenario	35%	15%	25%	22%	9%	29%	29%	32%	30%	50%	51%	36%	12%	13%	21%	27%
Low-Growth Scenario	11%	-7%	5%	5%	-9%	2%	4%	-3%	2%	10%	14%	-8%	-13%	-6%	-12%	0%
Bear Scenario	-20%	-28%	-31%	-20%	-37%	-22%	-26%	-42%	-40%	-39%	-29%	-62%	-27%	-22%	-36%	-32%
Base : Low-Growth Ratio	**3.3**	**(2.0)**	**5.2**	**4.6**	**(1.0)**	**12.4**	**8.3**	**(12.6)**	**14.6**	**4.9**	**3.6**	**(4.3)**	**(1.0)**	**(2.2)**	**(1.8)**	**2.1**
Low-Growth : Bear Ratio	**0.5**	**(0.3)**	**0.2**	**0.2**	**(0.2)**	**0.1**	**0.1**	**(0.1)**	**0.1**	**0.3**	**0.5**	**(0.1)**	**(0.5)**	**(0.3)**	**(0.3)**	**0.0**
Base : Bear Ratio	**1.7**	**0.5**	**0.8**	**1.1**	**0.3**	**1.3**	**1.1**	**0.8**	**0.8**	**1.3**	**1.8**	**0.6**	**0.5**	**0.6**	**0.6**	**0.9**

Assumptions	CBE	DHR	DOV	EMR	GDI	GE	HON	IR	KMT	ROK	SPW	TXT	TYC	UTX	VMI	EE/MI
Target P/E Multiple																
Base Scenario	14.0x	16.2x	13.0x	14.9x	13.7x	13.4x	13.4x	13.0x	13.0x	16.4x	14.3x	13.0x	12.5x	13.6x	16.1x	14.0x
Low-Growth Scenario	12.5x	14.7x	11.9x	13.9x	12.6x	11.7x	11.9x	11.5x	11.5x	14.0x	12.1x	11.6x	11.2x	12.6x	13.6x	12.5x
Bear Scenario	10.5x	13.2x	11.0x	13.0x	11.6x	10.0x	10.5x	10.0x	11.0x	12.0x	10.0x	10.5x	10.0x	11.5x	11.0x	11.1x
Implied EV/Sales Multiple																
Base Scenario	1.7x	2.2x	1.4x	1.7x	1.4x	1.5x *	1.4x	1.2x	1.4x	2.3x	0.8x	0.6x *	1.3x	1.4x	1.1x	1.42x
Low-Growth Scenario	1.4x	2.0x	1.2x	1.5x	1.2x	1.2x *	1.2x	0.9x	1.2x	1.9x	0.6x	0.4x *	1.1x	1.2x	0.9x	1.20x
Bear Scenario	1.2x	2.0x	1.0x	1.4x	0.9x	1.0x *	1.0x	0.7x	0.9x	1.5x	0.5x	0.2x *	1.0x	1.2x	0.7x	1.01x
*MV/Sales																
Implied EV/EBIT Multiple																
Base Scenario	10.8x	13.0x	8.9x	9.6x	8.0x	9.9x *	10.3x	10.0x	9.5x	14.3x	9.7x	7.2x *	10.0x	9.4x	10.4x	10.2x
Low-Growth Scenario	9.6x	12.1x	8.1x	9.0x	7.1x	8.6x *	9.4x	9.0x	8.7x	12.8x	8.5x	6.1x *	9.1x	8.8x	8.8x	9.2x
Bear Scenario	8.8x	12.2x	7.5x	8.3x	6.1x	7.8x *	8.9x	8.5x	7.9x	12.8x	8.0x	4.3x *	8.6x	8.4x	5.7x	8.4x
*MV/EBIT																
P/E Fair Value ($)																
Base Scenario	61	53	66	56	84	21	61	47	47	89	80	25	49	85	111	
Low-Growth Scenario	50	43	55	48	70	17	49	35	37	66	61	17	38	71	81	
Bear Scenario	36	33	36	36	48	13	35	21	22	36	38	7	32	59	59	
Current Price ($)	**45**	**46**	**52**	**46**	**76**	**16**	**47**	**36**	**36**	**59**	**53**	**19**	**44**	**76**	**92**	

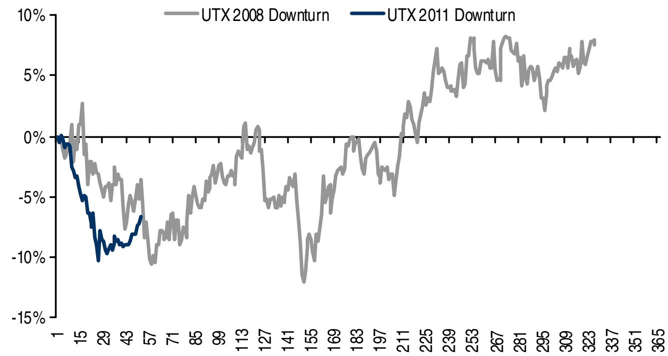
Current Valuation	CBE	DHR	DOV	EMR	GDI	GE	HON	IR	KMT	ROK	SPW	TXT	TYC	UTX	VMI	EE/MI
Current																
Price ($)	$45	$46	$52	$46	$76	$16	$47	$36	$36	$59	$53	$19	$44	$76	$92	
EV (bn)	$7.5	$36.3	$11.2	$38.3	$3.3	$170.9 *	$42.8	$13.4	$3.0	$8.7	$3.2	$4.6 *	$22.2	$78.5	$4.3	
Dividend Yield	2.5%	0.2%	2.2%	2.9%	0.3%	3.7%	2.8%	1.5%	1.3%	2.8%	1.8%	0.5%	2.4%	2.6%	2.5%	2.0%
2012 FCF Yield	8.6%	14.8%	8.4%	8.9%	9.4%		11.1%	13.2%	9.3%	7.9%	11.0%		12.6%	9.2%	8.6%	10.2%
*MV																
2012 P/E																
Base Scenario	10.4x	14.2x	10.4x	12.1x	12.5x	10.3x	10.4x	9.9x	10.0x	10.9x	9.5x	9.6x	11.1x	12.1x	13.3x	11.1x
Low-Growth Scenario	11.3x	15.9x	11.4x	13.3x	13.9x	11.4x	11.5x	11.8x	11.3x	12.7x	10.6x	12.6x	12.9x	13.4x	15.3x	12.6x
Bear Scenario	13.1x	18.3x	16.0x	16.3x	18.3x	12.9x	14.2x	17.4x	18.2x	19.7x	14.0x	27.7x	13.7x	14.7x	17.2x	16.8x
2012 EV/EBIT																
Base Scenario	8.5x	10.9x	7.6x	8.1x	7.4x	7.6x*	8.1x	7.5x	7.2x	8.0x	6.7x	4.8x*	9.1x	8.4x	14.2x	8.3x
Low-Growth Scenario	9.3x	12.2x	8.3x	8.7x	8.2x	8.4x*	9.0x	8.8x	8.4x	9.3x	7.4x	6.0x*	10.4x	9.1x	16.1x	9.3x
Bear Scenario	11.7x	15.1x	11.4x	10.3x	11.4x	10.0x*	11.4x	12.5x	12.6x	14.4x	10.2x	10.3x*	11.5x	10.2x	13.8x	11.8x
*MV/EBIT																
2012 EV/Sales																
Base Scenario	1.31x	1.86x	1.16x	1.42x	1.30x	1.1x*	1.08x	0.87x	1.10x	1.31x	0.54x	0.4x*	1.21x	1.24x	1.55x	1.16x
Low-Growth Scenario	1.35x	2.01x	1.24x	1.49x	1.38x	1.1x*	1.12x	0.88x	1.15x	1.37x	0.57x	0.4x*	1.24x	1.29x	1.63x	1.22x
Bear Scenario	1.59x	2.44x	1.58x	1.72x	1.66x	1.2x*	1.29x	0.99x	1.42x	1.70x	0.64x	0.5x*	1.32x	1.40x	1.79x	1.42x
*MV/Sales																

Scenarios		CBE	DHR	DOV	EMR	GDI	GE	HON	IR	KMT	ROK	SPW	TXT	TYC	UTX	VMI	EE/MI
2012 Base Scenario	2012 Sales (bn)	5.8	19.5	9.6	26.9	2.6	151.4	39.6	15.4	2.8	6.7	6.1	12.3	18.4	63.1	2.8	
	YoY%	8%	20%	12%	8%	10%	3%	7%	2%	9%	10%	9%	8%	5%	7%	9%	8%
	2012 EBIT (bn)	0.9	3.3	1.5	4.7	0.5	22.3	5.2	1.8	0.4	1.1	0.5	1.0	2.4	9.4	0.3	
	Margin	15.3%	17.0%	15.2%	17.6%	17.5%	14.8%	13.3%	11.5%	15.3%	16.2%	8.0%	7.8%	13.3%	14.9%	10.9%	13.9%
	Incremental	27%	20%	17%	20%	21%	37%	24%	34%	25%	24%	22%	33%	31%	26%	23%	26%
	Tax Rate	22%	26%	28%	31%	28%	26%	26%	24%	24%	23%	32%	31%	20%	31%	34%	27%
	2012 EPS	$4.33	$3.25	$5.05	$3.77	$6.11	$1.58	$4.55	$3.61	$3.59	$5.43	$5.62	$1.95	$3.94	$6.26	$6.90	
	YoY%	14%	17%	9%	13%	14%	16%	13%	25%	10%	13%	30%	101%	15%	14%	18%	21%
2012 Low-Growth Scenario	2012 Sales (bn)	5.6	18.0	9.0	25.7	2.4	149.2	38.1	15.2	2.6	6.3	5.7	11.6	17.9	60.9	2.7	
	YoY%	5%	12%	6%	4%	5%	1%	4%	1%	5%	6%	4%	2%	2%	3%	4%	4%
	2012 EBIT (bn)	0.8	3.0	1.3	4.4	0.4	20.3	4.8	1.5	0.4	0.9	0.4	0.8	2.1	8.6	0.3	
	Margin	14.6%	16.5%	14.9%	17.0%	16.7%	13.6%	12.5%	10.0%	13.8%	14.8%	7.6%	6.7%	11.8%	14.1%	10.1%	13.0%
	Incremental	20%	20%	15%	15%	20%	30%	20%	20%	22%	20%	15%	15%	20%	20%	20%	19%
	Tax Rate	22.0%	26.0%	28.0%	30.5%	28.0%	26.0%	26.0%	24.0%	20.0%	22.5%	32.0%	31.0%	19.8%	31.0%	34.0%	27%
	2012 EPS	$3.98	$2.89	$4.61	$3.44	$5.51	$1.43	$4.09	$3.02	$3.19	$4.68	$5.00	$1.47	$3.39	$5.64	$5.97	
	YoY%	6%	7%	1%	6%	8%	12%	5%	11%	6%	5%	5%	29%	7%	6%	6%	8%
2012 Bear Scenario	2012 Sales (bn)	4.7	14.8	7.1	22.2	2.0	138.6	33.1	13.6	2.1	5.1	5.1	10.2	16.8	56.0	2.4	
	YoY%	-11%	-8%	-17%	-10%	-13%	-6%	-10%	-10%	-15%	-15%	-8%	-10%	-4%	-5%	-5%	-10%
	2012 EBIT (bn)	0.6	2.4	1.0	3.7	0.3	17.1	3.8	1.1	0.2	0.6	0.3	0.5	1.9	7.7	0.3	
	Margin	13.6%	16.2%	13.9%	16.8%	14.6%	12.3%	11.4%	7.9%	11.3%	11.8%	6.3%	4.4%	11.5%	13.7%	13.0%	11.9%
	Decremental	20%	15%	20%	20%	30%	30%	20%	28%	25%	30%	20%	25%	16%	17%	13%	22%
	Tax Rate	15.0%	19.0%	27.0%	28.0%	24.0%	22.0%	22.6%	14.0%	22.0%	19.0%	25.0%	30.0%	16.0%	29.0%	30.0%	23%
	2012 EPS	$3.44	$2.51	$3.28	$2.80	$4.17	$1.27	$3.33	$2.06	$1.97	$3.02	$3.79	$0.67	$3.19	$5.12	$5.31	
	YoY%	-8%	-9%	-29%	-16%	-22%	-7%	-17%	-29%	-40%	-37%	-12%	-31%	-7%	-6%	-9%	-19%
2009 Downturn	2009 Sales (bn)	5.1	10.8	5.8	3.1	1.8	155.3	30.9	13.1	1.9	4.5	4.8	10.5	1.6	52.4	2.0	
	YoY% (Organic +FX)	-23%	-14%	-26%	-16%	-27%	-12%	-16%	-16%	-22%	-24%	-17%	-25%	-13%	-7%	-9%	-18%
	2009 EBIT (bn)	0.6	1.5	0.6	0.5	0.2	10.0	2.5	1.0	0.0	0.4	0.2	0.2	0.2	6.4	0.2	
	Margin	11.3%	13.7%	10.2%	15.9%	10.9%	6.4%	7.9%	7.4%	0.5%	9.0%	3.5%	1.5%	9.7%	12.2%	9.0%	8.6%
	Decremental	25%	21%	25%	20%	40%	34%	19%	na	49%	38%	19%	25%	15%	19%	na	27%
	2009 EPS	$2.68	$1.71	$1.84	$2.36	$2.40	$1.00	$2.69	$1.65	$0.95	$1.91	$3.92	$0.38	$2.47	$4.12	$3.57	
	YoY%	-31%	-16%	-50%	-19%	-32%	-44%	-28%	-57%	-47%	-42%	-40%	-86%	-15%	-16%	-38%	-37%

Source: Company data, Credit Suisse estimates

When we look at the performance of UTX relative to the S&P in this downturn compared with 2008-9, we can see that it had recently fallen almost to the trough level of relative performance which it hit in that downturn. This suggests that further relative downside is limited, even if the industrial cycle deteriorates further.

Exhibit 38: UTX relative to the S&P
% performance, in days, unless otherwise stated



Source: Datastream

Summary Financials

Exhibit 39: UTX Income Statement
USD in millions, unless otherwise stated

Income statement	2008	2009	2010	2011E	2012E	2013E
Sales	**59,757**	**52,425**	**54,326**	**59,163**	**63,107**	**66,665**
change	7%	-12%	4%	9%	7%	6%
Operating profit	**7,625**	**6,377**	**7,186**	**8,369**	**9,390**	**10,252**
margin	12.8%	12.2%	13.2%	14.1%	14.9%	15.4%
Other expenses	0	0	0	0	0	0
Interest	(689)	(617)	(648)	(592)	(596)	(592)
PTP	**6,936**	**5,760**	**6,538**	**7,777**	**8,795**	**9,661**
margin	11.6%	11.0%	12.0%	13.1%	13.9%	14.5%
Tax charge	(1,883)	(1,581)	(1,827)	(2,388)	(2,726)	(2,946)
Tax rate	27.1%	27.4%	27.9%	30.7%	31.0%	30.5%
Minority interest	(364)	(350)	(338)	(400)	(415)	(415)
Net income from cont. ops	4,689	3,829	4,373	4,989	5,653	6,299
Discontinued operations	1	2	3	4	5	5
Net income	4,689	3,829	4,373	4,989	5,653	6,299
margin	7.8%	7.3%	8.0%	8.4%	9.0%	9.4%
Diluted EPS - cont ops	**$4.90**	**$4.12**	**$4.74**	**$5.48**	**$6.26**	**$7.03**
change	15%	-16%	15%	16%	14%	12%

Source: Company data, Credit Suisse estimates

Exhibit 40: UTX Balance Sheet
USD in millions, unless otherwise stated

Balance sheet	2008	2009	2010	2011E	2012E	2013E
Cash	4,327	4,449	4,083	2,707	6,304	10,358
Other current assets	19,772	18,745	19,427	22,647	24,049	25,313
Total current assets	24,099	23,194	23,510	25,354	30,353	35,671
PP&E	6,348	6,364	6,280	6,371	6,511	6,654
Goodwill	18,806	19,836	21,781	21,466	21,151	20,836
Other LT assets	7,216	6,368	6,922	6,922	6,922	6,922
LT assets	32,370	32,568	34,983	34,759	34,584	34,412
Total assets	**56,469**	**55,762**	**58,493**	**60,114**	**64,937**	**70,084**
ST debt	2,139	1,487	279	0	0	0
Other current liabilities	17,295	16,426	17,453	18,662	19,906	21,029
Current liabilities	19,434	17,913	17,732	18,662	19,906	21,029
LT debt	9,337	8,257	10,010	10,010	10,010	10,010
Other LT liabilities	11,781	9,526	9,366	8,879	8,893	8,906
LT liabilities	21,118	17,783	19,376	18,889	18,903	18,916
Total liabilities	40,552	35,696	37,108	37,551	38,809	39,945
Shareholders' Equity	15,917	20,066	21,385	22,562	26,128	30,139
Total liabilities and S/E	**56,469**	**55,762**	**58,493**	**60,114**	**64,937**	**70,084**

Source: Company data, Credit Suisse estimates

Exhibit 41: UTX Cash Flow Statement

USD in millions, unless otherwise stated

Cash flow	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Net income	4,689	3,829	4,373	4,989	5,653	6,299
D&A	1,321	1,258	1,356	1,228	1,248	1,269
Change in working capital	(276)	582	571	(2,011)	(157)	(142)
Other cash flow from operations	427	(316)	(394)	(100)	415	415
Cash flow from operations	6,161	5,353	5,906	4,106	7,159	7,841
Capex	(1,216)	(826)	(865)	(1,004)	(1,073)	(1,097)
cash flow from investments	(1,120)	(278)	(2,322)	(0)	(0)	0
Total from investments	(2,336)	(1,104)	(3,187)	(1,004)	(1,073)	(1,097)
Cash flow from financing	(2,238)	(4,191)	(3,153)	(4,478)	(2,489)	(2,690)
Effect of FX	(164)	64	68	0	0	0
Total cash flow	**1,423**	**122**	**(366)**	**(1,376)**	**3,597**	**4,054**

Source: Company data, Credit Suisse estimates

Exhibit 42: UTX Divisional Summary

USD in millions, unless otherwise stated

Divisional summary	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Revenues						
Otis	12,949	11,723	11,579	12,593	13,643	14,565
Carrier	14,944	11,335	11,386	12,468	13,423	14,204
UTC Fire & Security	6,462	5,503	6,490	7,075	7,529	7,926
Pratt & Whitney	13,709	12,392	12,935	13,795	14,753	15,925
Hamilton Sundstrand	6,207	5,560	5,608	6,050	6,325	6,499
Sikorsky	5,368	6,287	6,684	7,182	7,434	7,546
Total segment revenues	**59,639**	**52,800**	**54,682**	**59,163**	**63,107**	**66,665**
Eliminations & other	(214)	(375)	(356)	-	-	-
Consolidated revenues	**59,425**	**52,425**	**54,326**	**59,163**	**63,107**	**66,665**
Reported revenue growth						
Otis	9.0%	-9.5%	-1.2%	8.8%	8.3%	6.8%
Carrier	2.0%	-24.2%	0.4%	9.5%	7.7%	5.8%
UTC Fire & Security	12.3%	-14.8%	17.9%	9.0%	6.4%	5.3%
Pratt & Whitney	5.1%	-9.6%	4.4%	6.6%	6.9%	7.9%
Hamilton Sundstrand	10.1%	-10.4%	0.9%	7.9%	4.5%	2.8%
Sikorsky	12.1%	17.1%	6.3%	7.5%	3.5%	1.5%
Total segment revenues	**7.0%**	**-11.5%**	**3.6%**	**8.2%**	**6.7%**	**5.6%**
Eliminations & other	174.4%	75.2%	-5.1%	-100.0%	-	-
Consolidated revenues	**6.7%**	**-11.8%**	**3.6%**	**8.9%**	**6.7%**	**5.6%**
Adjusted operating profit						
Otis	2,498	2,553	2,658	2,890	3,141	3,364
Carrier	1,389	866	1,142	1,489	1,730	1,922
UTC Fire & Security	605	605	792	929	1,053	1,163
Pratt & Whitney	2,201	2,025	2,125	2,037	2,260	2,483
Hamilton Sundstrand	1,090	945	983	1,095	1,168	1,215
Sikorsky	478	615	730	828	865	908
Segment adj OP	**8,261**	**7,609**	**8,430**	**9,270**	**10,217**	**11,054**
Eliminations & other	(50)	(144)	(253)	(360)	(275)	(225)
General corporate	(408)	(345)	(377)	(414)	(442)	(467)
Adjusted operating profit	**7,803**	**7,120**	**7,800**	**8,496**	**9,500**	**10,362**
Adj operating margin						
Otis	19.3%	21.8%	23.0%	23.0%	23.0%	23.1%
Carrier	9.3%	7.6%	10.0%	11.9%	12.9%	13.5%
UTC Fire & Security	9.4%	11.0%	12.2%	13.1%	14.0%	14.7%
Pratt & Whitney	16.1%	16.3%	16.4%	14.8%	15.3%	15.6%
Hamilton Sundstrand	17.6%	17.0%	17.5%	18.1%	18.5%	18.7%
Sikorsky	8.9%	9.8%	10.9%	11.5%	11.6%	12.0%
Total segment	**13.9%**	**14.4%**	**15.4%**	**15.7%**	**16.2%**	**16.6%**
Eliminations & other	-0.1%	-0.3%	-0.5%	-0.6%	-0.4%	-0.3%
General corporate	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
Adjusted operating margin	**13.1%**	**13.6%**	**14.4%**	**14.4%**	**15.1%**	**15.5%**

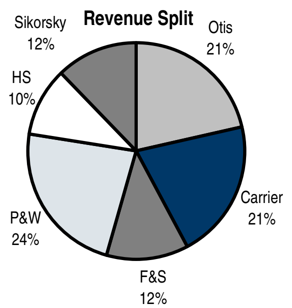
Source: Company data, Credit Suisse estimates

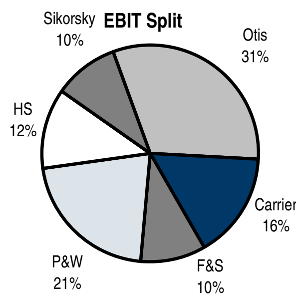
Exhibit 43: UTX Company Summary

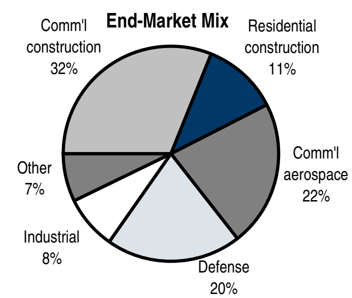
USD in millions, unless otherwise stated

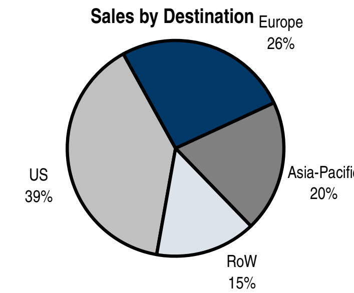
UNITED TECHNOLOGIES

TOTAL COMPANY









SEGMENT

2011E	OTIS	CARRIER	F&S	P&W	HS	SIKORSKY	SEGMENT TOTAL
Sales ($B)	12.6	12.5	7.1	13.8	6.1	7.2	59.2
% of sales	21%	21%	12%	23%	10%	12%	100%
Operating profit ($B)	2.9	1.4	0.9	2.0	1.1	0.9	9.1
Operating margin	22.8%	11.5%	12.6%	14.2%	17.9%	12.5%	15.5%
% of operating profit	31%	16%	10%	21%	12%	10%	100%
Customers / end-market split	Commercial and residential	Building Systems and Services, Home Comfort, Transportation, Food Safety	Industrial, Retail, Commercial	Aerospace, Military	Aerospace OE (28%), Aerospace AM (23%), Industrial (20%), Military (29%)	Military (60%), Commercial OE (18%), Commercial AM (22%)	see chart
Addressable market size ($B)*	35.2	-	100.0	-	-	-	
Market positioning / share	36%	-	7%	-	-	-	
Products sold	Elevators and escalators	HVAC building & industrial systems, refrigeration & food service equipment, container refrigeration, truck/trailer refrigeration, marine systems HVAC, AIRV	Electronic security products including alarms, video surveillance systems, specialty hazard detection products, fire extinguishers	Designs, manufactures, services and supports aircraft engines, industrial gas turbines and space propulsion systems	Aerospace (designs and manufactures integrated aerospace systems); Industrial (metering and specialty pumps, gas compressors); Space, Land and Sea (vehicle components, solar, etc.)	Military and commercial helicopters	
Major Brands	Otis	Carrier, Transicold, TransCentral	Chubb, Kidde, Marioff, Red Hawk, Onity, Lenel	Pratt & Whitney Canada, Pratt & Whitney Rocketdyne	Hamilton Sundstrand, Milton Roy, Sullair	Sikorsky	
Competitors	Kone, Schindler, Thyssen Krupp, Hitachi, Mitsubishi, Shanghai Electric	Trane, Daikin, Honeywell, York, Johnson Controls, Lennox,	Honeywell, Siemens, Kaba, Assa Abloy, Tyco	General Electric, MTU, Rolls Royce, Safran	Atlas Copco, Gardner Denver, Honeywell, Thales, Rockwell Collins, Safran	Textron, Eurocopter (EADS), AW	
Geographic sales split based on 2011 CS estimates							
United States	20%	47%	18%	49%	49%	67%	40%
Europe	42%	30%	50%		27%		27%
Asia	30%	10%	14%				18%
RoW	8%	14%	18%	51%	24%	33%	14%

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 16 Sep 11)*
Cooper Industries PLC (CBE, $47.65, OUTPERFORM, TP $62.00)
Danaher Corporation (DHR, $45.94, NEUTRAL, TP $52.00)
Dover Corporation (DOV, $52.34, NEUTRAL, TP $69.00)
Emerson (EMR, $45.74, OUTPERFORM, TP $59.00)
Gardner Denver, Inc. (GDI, $76.41, NEUTRAL, TP $91.00)
General Electric (GE, $16.33, OUTPERFORM, TP $22.00)
Goodrich (GR, $92.89, OUTPERFORM, TP $117.00)
Honeywell International Inc. (HON, $47.13, NEUTRAL, TP $59.00)
Ingersoll-Rand Plc (IR, $35.70, OUTPERFORM, TP $48.00)
Kennametal Inc. (KMT, $35.92, OUTPERFORM, TP $43.00)
Rockwell Automation (ROK, $59.49, OUTPERFORM, TP $86.00)
Rockwell Collins, Inc. (COL, $56.21, OUTPERFORM, TP $66.00)
SPX Corporation (SPW, $53.16, OUTPERFORM, TP $86.00)
Textron (TXT, $18.63, NEUTRAL, TP $25.00)
Tyco International, Ltd (TYC, $43.70, NEUTRAL, TP $46.00)
United Technologies Corp (UTX, $75.50, OUTPERFORM, TP $91.00)
Valmont Industries (VMI, $91.55, NEUTRAL, TP $103.00)

Disclosure Appendix

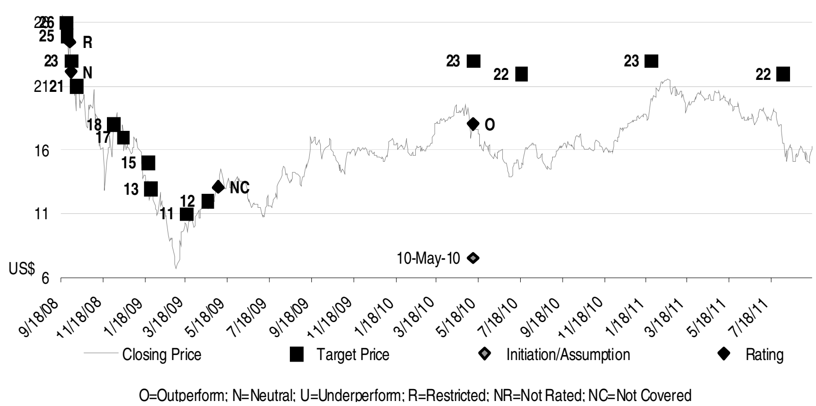
Important Global Disclosures

I, Julian Mitchell, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

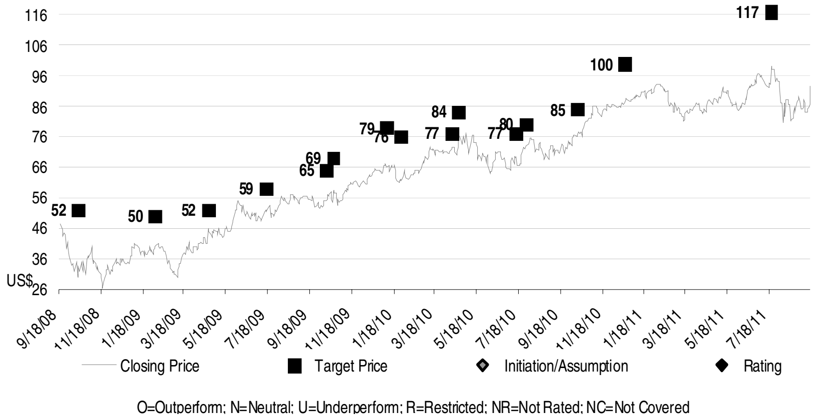
3-Year Price, Target Price and Rating Change History Chart for GE

GE Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
9/25/08	25.68	26		
9/26/08	25.25	25		
10/1/08	24.5		R	
10/2/08	22.15	23	N	
10/10/08	21.5	21		
12/3/08	18.13	18		
12/17/08	17.39	17		
1/22/09	13.48	15		
1/26/09	12.42	13		
3/19/09	10.13	11		
4/19/09	11.35	12		
5/4/09	13.1		NC	
5/10/10	18.04	23	O	X
7/19/10	14.62	22		
1/24/11	20.04	23		
8/4/11	16.47	22		



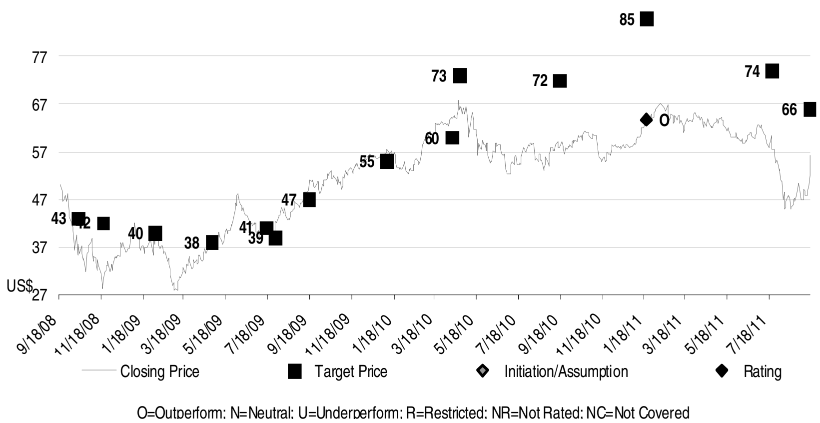
3-Year Price, Target Price and Rating Change History Chart for GR

GR Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
10/16/08	33.19	52		
2/4/09	39.16	50		
4/23/09	46.02	52		
7/16/09	51.85	59		
10/12/09	54.83	65		
10/22/09	58.57	69		
1/8/10	66.21	79		
1/28/10	61.37	76		
4/12/10	72.04	77		
4/22/10	76.51	84		
7/14/10	69.22	77		
7/29/10	72.95	80		
10/12/10	76.42	85		
12/20/10	87.31	100		
7/21/11	98.99	117		



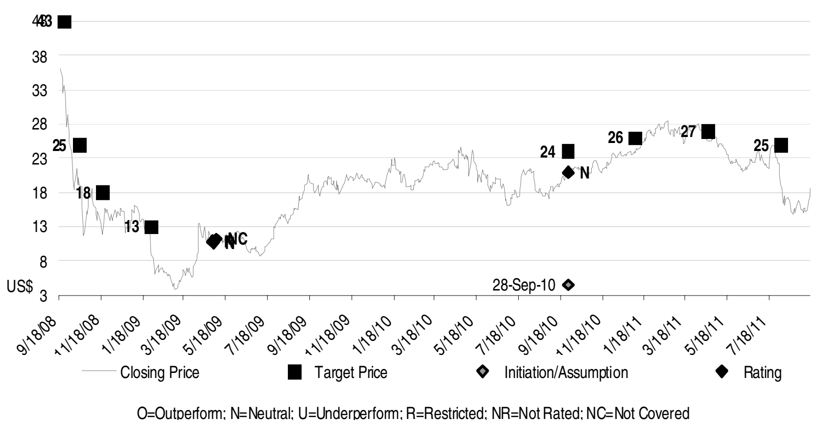
3-Year Price, Target Price and Rating Change History Chart for COL

COL Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
10/16/08	37.38	43		
11/21/08	30.39	42		
2/4/09	37.64	40		
4/28/09	37.3	38		
7/16/09	41.31	41		
7/30/09	42.52	39		
9/17/09	50.58	47		
1/8/10	57.39	55		
4/12/10	64.2	60		
4/23/10	65.9	73		
9/16/10	57.91	72		
1/21/11	63.71	85	O	
7/22/11	57.41	74		
9/15/11	52.14	66		



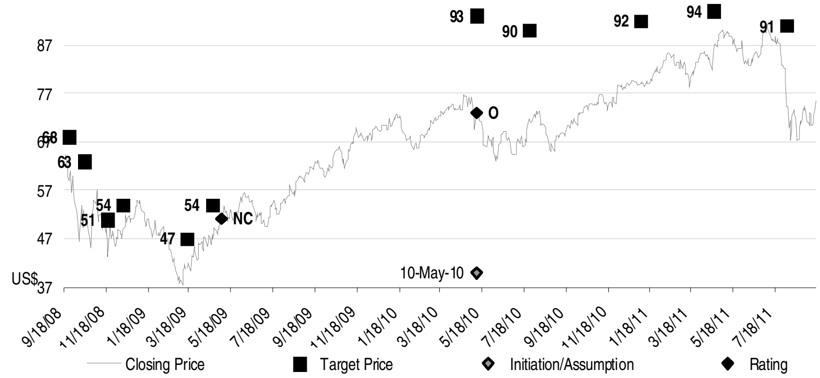
3-Year Price, Target Price and Rating Change History Chart for TXT

TXT Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
9/25/08	33.52	43		
10/17/08	19.12	25		
11/20/08	11.95	18		
1/30/09	9.03	13		
4/29/09	10.81		R	
4/30/09	10.73		N	
5/4/09	11.22		NC	
9/28/10	20.88	24	N	X
1/4/11	23.75	26		
4/20/11	25.51	27		
8/4/11	19	25		



3-Year Price, Target Price and Rating Change History Chart for UTX

UTX Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
9/25/08	59.17	68		
10/17/08	50.71	63		
11/20/08	43.22	51		
12/12/08	48.82	54		
3/15/09	41.12	47		
4/21/09	47.99	54		
5/4/09	51.18		NC	
5/10/10	73.04	93	O	X
7/26/10	71.59	90		
1/4/11	79.12	92		
4/20/11	85.9	94		
8/4/11	74.37	91		



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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Neutral/Hold*	39%	(56% banking clients)
Underperform/Sell*	9%	(53% banking clients)
Restricted	2%	

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Price Target: (12 months) for (GE)

Method: Our $22 target price for GE represents 13.9x our 2012 eps estimate. On HOLT, using 15% CFROI, GE is worth $24. On SOTP GE is worth $21. On EV/EBIT, GE is worth $22. On P/E, we think GE is worth $22. Our $22TP is a blended average of our various valuation methods.

Risks: Risks to our $22 target price for GE are (1) a slower than expected recovery for its Industrial businesses, which could pressure earnings; (2) overpaying for deals in the Medical segment, which was a problem in the last upcycle; (3) additional losses in GE Capital, including the potential for additional claims associated with its sale of GE Money Japan through GE's loss sharing agreement; (4) lack of cost control in its Industrial businesses could reduce incremental margins; (5) a prolonged downturn in the thermal power generation market; and (6) corporate costs volatility.

Price Target: (12 months) for (GR)

Method: A multiple of 12.5x expected peak earnings in 2015 of $9.34 yields a target price of $117.

Risks: Risks to our $117 target price for GR include a stall in the commercial original equipment upcycle, a decline in aftermarket activity, potential overhang from failure to repair actuation system for the Airbus A380, raw material price increases and availability, and delays on 777 landing gear production at GR.

Price Target: (12 months) for (COL)

Method: We apply a 10% discount to the historical FY2 multiple (5 year average) of 15.5x to our CY'12 estimate of $4.69 to yield a $66 target price for COL. The discount is to account for a more uncertain defense environment.

Risks: Risks to our $66 target price for COL are inability to sustain profit margin, a decline in defense spending, contract cancellations and a stalled airline and business jet recovery, a major interruption in the commercial aerospace industry, nonperformance on government contracts and product liability, as well as further increases in the cost of oil, which impacts many of its customers.

Price Target: (12 months) for (TXT)

Method: Our $25 target price on TXT represents 15.1x our 2012 eps estimate.

Risks: Risks to our $25 target price for TXT are: (1) a further decline in business jet deliveries caused by a delay in the recovery of the business jet cycle; (2) Industrial margins reverting to trough levels or worse, occasioned by a slowdown in automotive production; and (3) US Department of Defense budget cuts having an adverse effect on key TXT programs such as V22 or H1.

Price Target: (12 months) for (UTX)

Method: Our $91 target price for UTX represents 14.5x our 2012 EPS estimate.

Risks: Risks to our $91 target price for UTX include (1) a prolonged delay in the recovery of U.S. residential and commercial construction, which would have a negative impact on Fire and Security; (2) Otis margins are under pressure from competitors, although we believe its large installed base and substantial global presence means the company will be able to protect its profitability; and (3) an extended downturn in global commercial aerospace and risks associated with managing R&D programs.

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