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Editorial: Spinning Sikorsky, Bowing To Wall Street

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Like any business that has survived for 90 years, Sikorsky has weathered a lot of ups and downs since it was acquired by United Technologies Corp. (UTC) three months before the great stock market crash of 1929. So the recent decision by UTC to spin off the storied helicopter manufacturer says less about Sikorsky than it does about its parent company.

The Pentagon's leading rotorcraft supplier certainly is in better shape than it was a decade ago, when as a somewhat dysfunctional operation it lost a contract to build a new fleet of presidential helicopters. Now, with a backlog valued at $49 billion, the company has more business lined up than any other military helicopter manufacturer. The big CH-53K is the Pentagon's largest rotorcraft program, at almost $25 billion, and last year Sikorsky won both the $8 billion U.S. Air Force Combat Rescue Helicopter pact and a re-scoped presidential rotorcraft contract worth $3.2 billion.

Sikorsky also is on the cutting edge of rotorcraft technologies, investing in advanced vehicle autonomy—a top Pentagon priority—and prototypes such as the high-speed X2 technology demonstrator, the S-97 Raider light tactical helicopter and (with Boeing) the SB-1 joint multirole technology demonstrator for the U.S. Army. Market research firm Forecast International projects Sikorsky will remain a leading manufacturer of helicopters for at least 15 years "and likely beyond."

And Sikorsky is profitable. But with the military market in a downturn and its margins capped by the Defense Department, the problem is that it is not making enough money to keep Wall Street happy. It cannot keep up with its two larger sister units, Pratt & Whitney and United Technologies Aerospace Systems, which are suppliers rather than platform builders and have much more exposure to commercial markets. Gregory Hayes, UTC's new shareholder-focused CEO, notes that Sikorsky's operating margins of about 10% and projected sales growth are significantly lower than for the company's other businesses.

Still, UTC stood by Sikorsky in much more difficult times, and we find management's decision to jettison a perfectly good business troubling. During the global economic downturn, Sikorsky's robust gains in sales and profits helped offset, to a degree, large declines at the company's non-aerospace businesses.

The move is emblematic of a shift in the aerospace and defense industry where pleasing shareholders has become paramount, even at the expense of funding research in new technologies and products to ensure long-term competitiveness. Frank Kendall, the U.S. undersecretary of defense for acquisition, has worried aloud that some contractors are mainly interested in generating returns in as little as one or two years.

UTC has not been a shortsighted company—witness Pratt's $10-billion investment in the PW1000G geared turbofan engine. But giving up Sikorsky is a shortsighted move that could prove to be more of a disservice than a boon to investors in the long run.

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