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UTC boosts profit forecast, pledges further cost cutting

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Visitors look at a PW1000G geared turbofan engine, manufactured by Pratt & Whitney, a unit of United Technologies Corp., displayed at the Paris Air Show in Paris, France, on Thursday, June 23, 2011. Photographer: Chris Ratcliffe/Bloomberg Photo: Bloomberg, Chris Ratcliffe / © 2011 Bloomberg Finance LP

United Technologies Corp. boosted its full-year earnings forecast after 11 percent profit growth in the third quarter, a period marked by the largest acquisition agreement in the company's history.

Chief Executive Officer Louis Chenevert is shielding United Technologies from declining military sales by securing commercial aerospace revenue with the $16.5 billion acquisition of Goodrich Corp. and an agreement this month to buy Rolls-Royce Group Plc's stake in a joint engine-making venture.

As further preparation for some rocky times ahead, the Hartford-based conglomerate also said it planned an additional $100 million in cost cutting across all its divisions, including Sikorsky Aircraft, before the year is out.

Greg Hayes, UTC's chief financial officer, cited concerns over persistently high unemployment in the U.S., constrained defense spending and European debt trouble among a host of unsettling trends facing the economy and that's why the company is making cuts now, putting itself in position for the possibility of worsening economic conditions.

As for the company's current position, Hayes said it enjoyed a solid third quarter and expected to deliver full-year earnings of $5.47 a share, up from a previous forecast of $5.35 to $5.45 a share.

United Technologies' quarterly results demonstrate "both its high-quality assets and best-in-class management of those assets, with performance ahead of our expectations," Joel Levington, managing director of corporate credit at Brookfield Investment Management, said in an interview.

Net income was $1.32 billion, or $1.47 a share, compared with $1.2 billion, or $1.30, a year earlier, the company said. That exceeded the $1.45 average estimate of 19 analysts surveyed by Bloomberg. Revenue climbed 8.7 percent to $14.8 billion.

United Technologies declined 86 cents to close at $73.26 in New York, after the company narrowed its full-year profit growth forecast for the Fire & Security unit by about 33 percent to $100 million and the broader Standard & Poor's 500 Index declined.

Stratford-based Sikorsky delivered 73 helicopters during the quarter with sales of $1.87 billion and operating profit of $215 million.

The helicopter maker announced plans to lay off about 3 percent of its global work force during the quarter, including 419 workers in Connecticut, and now faces additional cost cuts.

Paul Jackson, a Sikorsky spokesman, declined to comment on the matter Wednesday and the parent corporation did not provide further details on the cuts.

Through the first nine months of this year, UTC said Sikorsky's restructuring costs have climbed to $16 million, with $13 million of that coming in the third quarter. Total restructuring costs across all UTC divisions was $188 million through the first nine months of this year, with Pratt & Whitney in East Hartford bearing $48 million of those costs. The company expects total restructuring to top $300 million, a revision from its $200 million forecast earlier this year.

It wasn't all bad news for Sikorsky or its sister UTC companies, as Hayes noted UTC will increase its engineering and development efforts to bring new technology to market.

"Certainly within Sikorsky, it could be meaningful," said Raymond Jaworowski, senior aerospace analyst with Newtown-based Forecast International.

He said Sikorsky is looking to develop a brand new aircraft, the S-97 Raider on its own and eventually offer it as an armed aerial scout for the U.S. Army or Marines.

Hayes and Sikorsky executives are right to be concerned about the Pentagon budget, Jaworowski said, and that could mean a potential competition for the Army's armed aerial scout could be delayed along with other spending.

"The whole budgetary environment in Washington is increasingly restrictive," he said.

The long-time support of Republicans for defense spending can't be counted on as the deficit debate goes on.

Overall, Jaworowski said Sikorsky's deliveries in the quarter were robust and its timing for the production of new civilian S-76D looks like it could land in a sweet spot for the commercial air market.

Hayes said the 76D is expected to achieve certification in the middle of next year. It will replace the S-76C++.

Acquisition agreements in the past two months will improve United Technologies' position in the aerospace market amid a record surge in commercial plane orders, the company has said. But don't expect further deals anytime soon.

The Rolls-Royce deal will add $1.5 billion in revenue to Pratt & Whitney in 2013 and $75 million to $100 million to earnings, Hayes said in a telephone interview with Bloomberg News.

The Goodrich purchase is expected to dilute earnings by 30 cents to 40 cents a share next year if it closes in mid-2012 as planned. The acquisition would increase profit in 2013, Hayes said on a conference call with analysts.

About 75 percent of the payment for Goodrich will be in debt likely to be issued in the April-to-May time frame, while 25 percent of the payment will be in some form of equity, Hayes said.

"The Goodrich deal, while pricey, will ensure solid earnings performance in the back half of the decade," BIM's Levington said.

Moody's Investors Service reiterated its stable outlook on the company's debt after the Goodrich announcement, while Standard & Poor's downgraded the outlook to negative. United Technologies hopes its plans to issue more stock will convince the ratings firm to drop that designation before the deal closes, Hayes said.

Goodrich, Pratt & Whitney and Hamilton Sundstrand will be wrapped into a broad aerospace unit under a plan United Technologies announced in late September to create two broad business groups.

The second group will include building infrastructure such as Otis elevators and Carrier climate-control equipment, which Chenevert is using to tap construction demand in emerging markets like India and China, as well as UTC Fire & Security.

New equipment orders at Otis climbed 19 percent in the third quarter, while climate-control equipment orders at Carrier increased 11 percent. Both included currency-exchange gains, the company said.

Revenue gained across the company's businesses with increases of 12 percent at Otis, 8.1 percent at Carrier, 5.4 percent at Fire & Security, 7.8 percent at Hamilton Sundstrand and less than 1 percent at Pratt & Whitney.

Staff writer Rob Varnon and Bloomberg News contributed to this report.