

## UTC Considers Sikorsky Divestiture

By: Thierry Dubois

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UTC is considering selling or (more appealing from a tax perspective) spinning off Sikorsky. The helicopter manufacturer's growth is too slow and its margin too small when compared with those of other businesses in the group, according to UTC president and CEO Gregory Hayes.

In a presentation on March 12, Sikorsky appears to be behind, with a margin slightly greater than 10 percent for last year and projected growth of about 3 percent through 2023. "This is not just quite the kind of business we want in terms of margin potential and long-term growth," Hayes said. With \$7.5 billion of revenue last year, Sikorsky is also the smallest of UTC's five businesses—the other four being aircraft engines (Pratt & Whitney), aerospace systems (UTAS), air conditioning (Carrier) and elevators (Otis).

Moreover, the company's heavy dependence on military sales creates a level of uncertainty. "Looking to the future, we are evaluating whether Sikorsky's unique business as a rotorcraft OEM with a predominantly military customer base is best positioned as a standalone company, and whether a separation would allow United Technologies to better focus on providing high-technology systems and services to the aerospace and building industries," Hayes said the day before. He classified Sikorsky as a "platform integrator," and the company's other businesses as system providers. He noted that an independent Sikorsky would still be a *Fortune* 500 company.

However, Forecast International analysts believe that the long-term business potential for the Stratford, Conn.-based helicopter builder is bright. "Despite an anticipated downturn in the military helicopter market, Sikorsky's long-term potential in the world rotorcraft industry is substantial. Sikorsky is the leading Western manufacturer of military rotorcraft and is expected to remain so for at least the next 15 years and likely beyond," the analysts say. They cite recent contracts with the U.S. military, opportunities for military sales in other regions and prospects for sustained aftermarket business.

Forecast International predicts Sikorsky will build 1,658 military helicopters between 2015 and 2029, for a market share of 19.3 percent—second only to Russian Helicopters.

## OPTIONS UNDER DISCUSSION

UTC's board of directors has authorized a review of strategic alternatives. "As part of the portfolio review announced last December, we are exploring strategic options for Sikorsky to determine the best way to enhance its long-term success and create improved long-term value for UTC's customers and shareholders," said Hayes. UTC expects to conclude its review before year-end.

Selling Sikorsky could be difficult, Hayes warned, because the heavy tax liability for UTC would drive up the acquisition price. Therefore, Hayes sees a tax-free spinoff as the option with the greatest potential. He believes Sikorsky would be a successful standalone company, citing its strong backlog of close to \$16 billion.

Sikorsky's commercial sales are forecast to climb by 3 to 5 percent this year, with damage from declining oil prices expected to be limited because Sikorsky helicopters are deployed much more widely for oil production (82 percent) than for exploration (18 percent). Sikorsky CEO Mick Maurer said he expects the oil-and-gas market will be soft this year and next before it makes a comeback in 2017.

Asked whether he favors the spinoff, Maurer said he is "advocating for a robust strategic review process." Sikorsky employs 15,200 people.

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