United Technologies Corp. (UTX)

Updated January 28th, 2020 by Nathan Parsh

Key Metrics

<table>
<thead>
<tr>
<th>Current Price:</th>
<th>$153</th>
<th>5 Year CAGR Estimate:</th>
<th>5.0%</th>
<th>Market Cap:</th>
<th>$132 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Value Price:</td>
<td>$140</td>
<td>5 Year Growth Estimate:</td>
<td>5.0%</td>
<td>Ex-Dividend Date:</td>
<td>2/14/2020¹</td>
</tr>
<tr>
<td>% Fair Value:</td>
<td>110%</td>
<td>5 Year Valuation Multiple Estimate:</td>
<td>-1.8%</td>
<td>Dividend Payment Date:</td>
<td>3/10/2020²</td>
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<tr>
<td>Dividend Yield:</td>
<td>1.9%</td>
<td>5 Year Price Target:</td>
<td>$178</td>
<td>Years Of Dividend Growth:</td>
<td>25</td>
</tr>
<tr>
<td>Dividend Risk Score:</td>
<td>B</td>
<td>Retirement Suitability Score:</td>
<td>B</td>
<td>Last Dividend Increase:</td>
<td>5%</td>
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</tbody>
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Overview & Current Events

United Technologies is a commercial aerospace and defense company composed of two business divisions (after recently announced spin-offs are complete; see below): Pratt & Whitney (which manufactures and services engines for commercial and military customers) and Collins Aerospace Systems (which creates aerospace and industrial products). The company was founded in 1934 and has more than 200,000 employees.

United Technologies’ $30 billion acquisition of Rockwell Collins was completed on 11/26/2018. At the same time, the company announced that it was spinning off its Otis and Climate, Controls and Security businesses into two separate independent companies. Otis will retain its name and CCS will take the name of Carrier. Both spinoffs are expected to take place in the second quarter of 2020.

On 6/9/2019, it was announced that the remaining United Technologies businesses would merge with Raytheon Company (RTN). The deal is expected to close following the spinoffs of Otis and CCS in the first half of 2020. Raytheon shareholders will receive 2.3348 shares in the combined company for each share of Raytheon they own. The new company will be called Raytheon Technologies. Shareholders for both companies approved the merger on 10/11/2019.

United Technologies reported earnings results for the fourth quarter and full year on 1/28/2020. Adjusted earnings-per-share totaled $1.94, $0.10 above estimates, but $0.01 below the previous year. Revenue grew 8.4% to $19.6 billion, $200 million higher than expected. For the full year, adjusted earnings-per-share grew 9% $8.26, $0.16 above the midpoint of the company’s guidance. Revenue improved 16% to $77 billion. Top and bottom line totals for the year were a record. The company had organic growth of 1% for the quarter and 5% for 2019.

Collins Aerospace grew 32% for the quarter and 1% organically. Commercial after market and military sales were both higher by double-digits. Pratt & Whitney had organic growth of 2%. Military was up 12%, while commercial aftermarket was flat. Commercial OEM was lower by 7%. Otis had 4% organic growth due to gains in service sales and new equipment. Currency reduced results by 2%. Carrier sales declined 3%, primarily due to an 8% drop in Global Refrigeration. Free cash flow came to $6.6 billion for 2019, but $400 million of this was due to one-time cash payments related to separation activities. United Technologies remains on track to close on the merger with Raytheon early in the second quarter. Guidance for the combined companies will be distributed following the merger. For now, analysts expected adjusted earnings-per-share of $8.73 for 2020. The company did warn that the production suspension of the 737 MAX will impact Collins Aerospace.

Growth on a Per-Share Basis

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<tbody>
<tr>
<td>EPS</td>
<td>$4.74</td>
<td>$5.49</td>
<td>$5.34</td>
<td>$6.21</td>
<td>$6.82</td>
<td>$6.29</td>
<td>$6.61</td>
<td>$6.60</td>
<td>$7.61</td>
<td>$8.26</td>
<td>$8.73</td>
<td>$11.14</td>
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<td>DPS</td>
<td>$1.70</td>
<td>$1.87</td>
<td>$2.03</td>
<td>$2.20</td>
<td>$2.36</td>
<td>$2.56</td>
<td>$2.62</td>
<td>$2.72</td>
<td>$2.80</td>
<td>$2.94</td>
<td>$2.94</td>
<td>$3.75</td>
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<tr>
<td>Shares³</td>
<td>921</td>
<td>907</td>
<td>919</td>
<td>917</td>
<td>909</td>
<td>838</td>
<td>809</td>
<td>799</td>
<td>795</td>
<td>867</td>
<td>867</td>
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</table>

¹ Estimated date
² Estimated dividend payment date
³ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.
United Technologies Corp. (UTX)

*Updated January 28th, 2020 by Nathan Parsh*

United Technologies saw a decline in earnings-per-share during the last recession that took the company until 2011 to recover from. Over the past decade, United Technologies has seen earnings growth of 3% per year. Due to upward revised guidance, organic growth, the expected divestiture of Otis and Carrier and the merger with Raytheon, we are raising our expected earnings growth rate to 5% from 3%.

United Technologies raised its dividend 5% for the December 2018 payment, giving the company 25 consecutive years of dividend growth, qualifying the company as a member of the Dividend Aristocrats index.

### Valuation Analysis

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<tbody>
<tr>
<td>Avg. P/E</td>
<td>15.0</td>
<td>14.6</td>
<td>14.7</td>
<td>16.0</td>
<td>16.4</td>
<td>17.0</td>
<td>15.3</td>
<td>17.7</td>
<td>15.7</td>
<td>18.1</td>
<td>17.5</td>
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<tr>
<td>Avg. Yld.</td>
<td>2.4%</td>
<td>2.3%</td>
<td>2.6%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.3%</td>
<td>2.5%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Shares of United Technologies have increased $12, or 8.5%, since our 10/22/2019 update. Based on estimates for 2020, the stock has a forward price-to-earnings multiple of 17.5. We are raising our 2025 target P/E to 16 from 15.3 due to organic growth, upcoming divestitures and the merger with Raytheon. Reverting to our new target price-to-earnings ratio would be a 1.8% headwind to annual returns through 2025.

### Safety, Quality, Competitive Advantage, & Recession Resiliency

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<tbody>
<tr>
<td>Payout</td>
<td>36%</td>
<td>34%</td>
<td>38%</td>
<td>35%</td>
<td>35%</td>
<td>41%</td>
<td>40%</td>
<td>41%</td>
<td>37%</td>
<td>36%</td>
<td>34%</td>
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United Technologies did see a decline in earnings during the last recession that took several years to recover from. This would likely be the case again in an adverse economic climate. The company has kept its dividend payout ratio below 40% for much of the past decade. This has allowed the company to raise its dividend even when earnings have declined. A key competitive advantage for United Technologies is that the company is divesting its Carrier and Otis businesses and focusing on the high growth areas of aerospace and defense. Combined with the Rockwell Collins acquisition and the merger with Raytheon, United Technologies is poised to see continued growth in these key business areas.

### Final Thoughts & Recommendation

United Technologies is expected to offer a total annual return of 5% through 2025, down slightly from our previous forecast of 5.3%. The company ended 2019 on a high note, topping estimates for both revenue and adjusted earnings-per-share. 2020 will be a year of transformation for United Technologies as it divests Otis and Carrier and completes its merger with Raytheon. United Technologies continues to receive a hold recommendation from Sure Dividend due to projected returns, but we do raise our 2025 price target $13 to $178 due to expected earnings-per-share for 2020.

**Total Return Breakdown by Year**

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Income Statement Metrics

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<tbody>
<tr>
<td>Revenue</td>
<td>52,425</td>
<td>52,275</td>
<td>55,754</td>
<td>57,708</td>
<td>56,600</td>
<td>57,900</td>
<td>56,098</td>
<td>57,244</td>
<td>59,837</td>
<td>66,501</td>
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<tr>
<td>Gross Profit</td>
<td>13,564</td>
<td>14,321</td>
<td>15,385</td>
<td>15,555</td>
<td>16,132</td>
<td>17,002</td>
<td>15,667</td>
<td>15,773</td>
<td>15,636</td>
<td>16,516</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>25.9%</td>
<td>27.4%</td>
<td>27.6%</td>
<td>27.0%</td>
<td>28.5%</td>
<td>29.4%</td>
<td>27.9%</td>
<td>27.6%</td>
<td>26.1%</td>
<td>24.8%</td>
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<td>SG&amp;A Exp.</td>
<td>6,036</td>
<td>5,798</td>
<td>6,161</td>
<td>6,452</td>
<td>6,364</td>
<td>6,172</td>
<td>5,886</td>
<td>5,958</td>
<td>6,429</td>
<td>7,066</td>
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<td>D&amp;A Exp.</td>
<td>1,258</td>
<td>1,300</td>
<td>1,263</td>
<td>1,524</td>
<td>1,735</td>
<td>1,820</td>
<td>1,863</td>
<td>1,962</td>
<td>2,140</td>
<td>2,433</td>
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<tr>
<td>Operating Profit</td>
<td>6,377</td>
<td>6,898</td>
<td>7,846</td>
<td>7,684</td>
<td>8,549</td>
<td>9,593</td>
<td>7,291</td>
<td>8,221</td>
<td>8,138</td>
<td>8,553</td>
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<tr>
<td>Op. Margin</td>
<td>12.2%</td>
<td>13.2%</td>
<td>14.1%</td>
<td>13.3%</td>
<td>15.1%</td>
<td>16.6%</td>
<td>13.0%</td>
<td>14.4%</td>
<td>13.6%</td>
<td>12.9%</td>
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<tr>
<td>Net Profit</td>
<td>3,829</td>
<td>4,373</td>
<td>4,979</td>
<td>5,130</td>
<td>5,721</td>
<td>6,220</td>
<td>7,608</td>
<td>5,055</td>
<td>4,552</td>
<td>5,269</td>
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<tr>
<td>Net Margin</td>
<td>7.3%</td>
<td>8.4%</td>
<td>8.9%</td>
<td>8.9%</td>
<td>10.1%</td>
<td>10.7%</td>
<td>13.6%</td>
<td>8.8%</td>
<td>7.6%</td>
<td>7.9%</td>
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<tr>
<td>Free Cash Flow</td>
<td>4,527</td>
<td>5,068</td>
<td>5,661</td>
<td>3,714</td>
<td>4,586</td>
<td>5,134</td>
<td>4,294</td>
<td>1,793</td>
<td>3,237</td>
<td>4,020</td>
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<td>Income Tax</td>
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<td>1,725</td>
<td>2,134</td>
<td>1,711</td>
<td>1,999</td>
<td>2,244</td>
<td>2,111</td>
<td>1,697</td>
<td>2,843</td>
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Balance Sheet Metrics

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<tbody>
<tr>
<td>Total Assets ($)</td>
<td>55,762</td>
<td>58,493</td>
<td>61,452</td>
<td>89,409</td>
<td>90,594</td>
<td>91,206</td>
<td>87,484</td>
<td>89,706</td>
<td>96,920</td>
<td>134,211</td>
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<tr>
<td>Cash &amp; Equivalents</td>
<td>4,449</td>
<td>4,083</td>
<td>5,960</td>
<td>4,819</td>
<td>4,619</td>
<td>5,229</td>
<td>7,075</td>
<td>7,157</td>
<td>8,985</td>
<td>6,152</td>
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<td>Acc. Receivable</td>
<td>4,869</td>
<td>8,925</td>
<td>9,546</td>
<td>11,099</td>
<td>11,458</td>
<td>10,448</td>
<td>10,653</td>
<td>11,481</td>
<td>12,595</td>
<td>14,271</td>
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<td>Inventories</td>
<td>7,509</td>
<td>7,766</td>
<td>7,797</td>
<td>9,537</td>
<td>10,330</td>
<td>7,642</td>
<td>8,135</td>
<td>9,704</td>
<td>9,881</td>
<td>10,083</td>
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<td>Goodwill &amp; Int.</td>
<td>19,836</td>
<td>21,781</td>
<td>21,861</td>
<td>42,990</td>
<td>43,689</td>
<td>42,976</td>
<td>42,904</td>
<td>42,743</td>
<td>43,793</td>
<td>74,536</td>
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<tr>
<td>Total Liabilities</td>
<td>34,374</td>
<td>35,844</td>
<td>38,632</td>
<td>62,340</td>
<td>57,375</td>
<td>58,642</td>
<td>58,640</td>
<td>60,537</td>
<td>65,499</td>
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<td>Accounts Payable</td>
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<td>5,206</td>
<td>5,570</td>
<td>6,431</td>
<td>6,965</td>
<td>6,250</td>
<td>6,875</td>
<td>7,483</td>
<td>9,579</td>
<td>11,080</td>
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<tr>
<td>Long-Term Debt</td>
<td>9,744</td>
<td>10,289</td>
<td>10,260</td>
<td>23,221</td>
<td>20,425</td>
<td>19,701</td>
<td>20,425</td>
<td>23,901</td>
<td>27,485</td>
<td>45,537</td>
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<tr>
<td>Total Equity</td>
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<td>21,385</td>
<td>21,880</td>
<td>25,914</td>
<td>23,221</td>
<td>27,358</td>
<td>27,579</td>
<td>29,610</td>
<td>38,446</td>
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<td>D/E Ratio</td>
<td>0.49</td>
<td>0.48</td>
<td>0.47</td>
<td>0.90</td>
<td>0.64</td>
<td>0.63</td>
<td>0.75</td>
<td>0.87</td>
<td>0.93</td>
<td>1.18</td>
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Profitability & Per Share Metrics

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<tbody>
<tr>
<td>Return on Assets</td>
<td>6.8%</td>
<td>7.7%</td>
<td>8.3%</td>
<td>6.8%</td>
<td>6.4%</td>
<td>6.8%</td>
<td>8.5%</td>
<td>5.7%</td>
<td>4.9%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>21.4%</td>
<td>21.1%</td>
<td>23.0%</td>
<td>21.5%</td>
<td>19.8%</td>
<td>19.7%</td>
<td>26.0%</td>
<td>18.4%</td>
<td>15.9%</td>
<td>15.5%</td>
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<tr>
<td>ROIC</td>
<td>12.9%</td>
<td>13.7%</td>
<td>15.1%</td>
<td>12.3%</td>
<td>11.0%</td>
<td>11.8%</td>
<td>15.0%</td>
<td>9.9%</td>
<td>8.1%</td>
<td>7.3%</td>
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<td>Shares Out.</td>
<td>928</td>
<td>921</td>
<td>907</td>
<td>919</td>
<td>917</td>
<td>909</td>
<td>838</td>
<td>809</td>
<td>799</td>
<td>795</td>
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<tr>
<td>Revenue/Share</td>
<td>56.44</td>
<td>56.65</td>
<td>61.48</td>
<td>63.65</td>
<td>61.85</td>
<td>63.51</td>
<td>63.52</td>
<td>69.29</td>
<td>74.88</td>
<td>82.09</td>
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<tr>
<td>FCF/Share</td>
<td>4.87</td>
<td>5.49</td>
<td>6.24</td>
<td>4.10</td>
<td>5.01</td>
<td>5.63</td>
<td>4.86</td>
<td>2.17</td>
<td>4.05</td>
<td>4.96</td>
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Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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