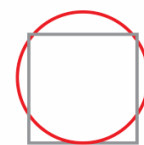


Industries > Aerospace & Defense

Honeywell-UTC: The Merger that Could Have Been

We consider the implications of the \$100B mega-merger that could have been.



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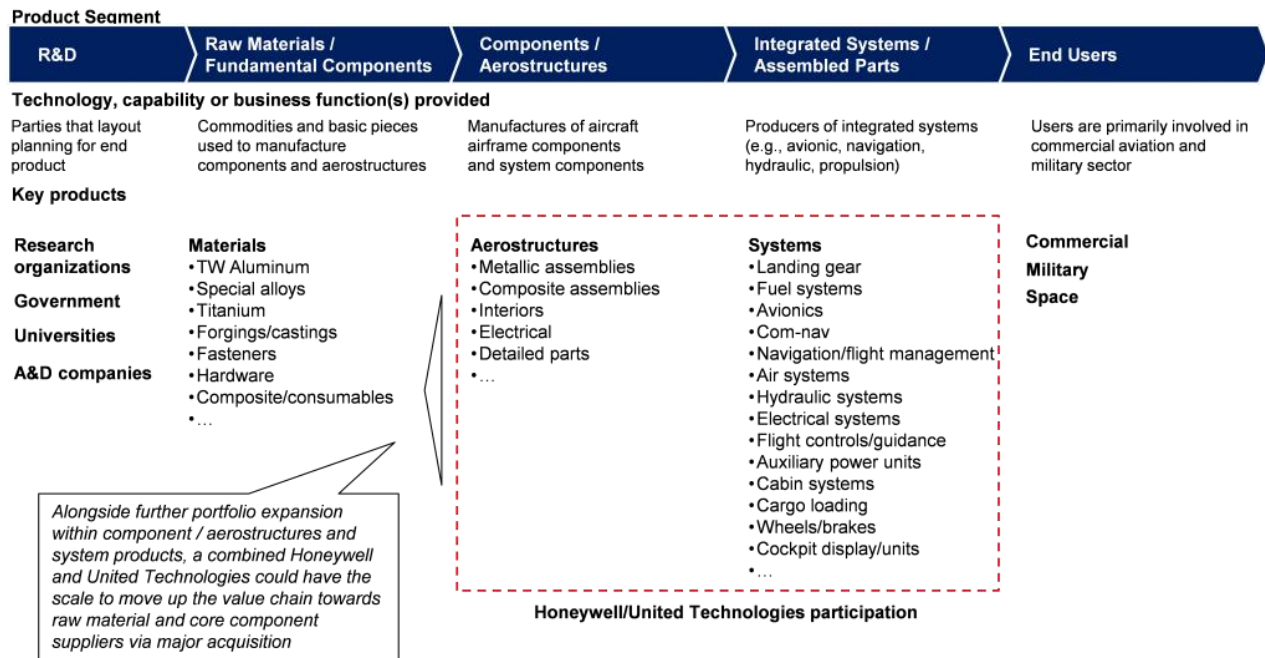
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ABSTRACT: The aerospace and defense industry has long been dominated by a handful of prominent players – this consolidation has resulted in minimal large scale M&A activity given potential regulatory and customer pushback. A prominent and recent example, the proposed Honeywell and United Technologies merger, reinforces the industry position and considers the value chain implication of a tie up between two leading market players.

While the Honeywell-United Technologies (UTC) merger proposition did not ultimately pan out as predicted through industry consensus, partially driven by heightened regulatory pushback in an increasingly scrupulous antitrust environment, one can imagine and appreciate the \$100B behemoth that could have been and the associated implications for aerospace and defense, especially downstream players.

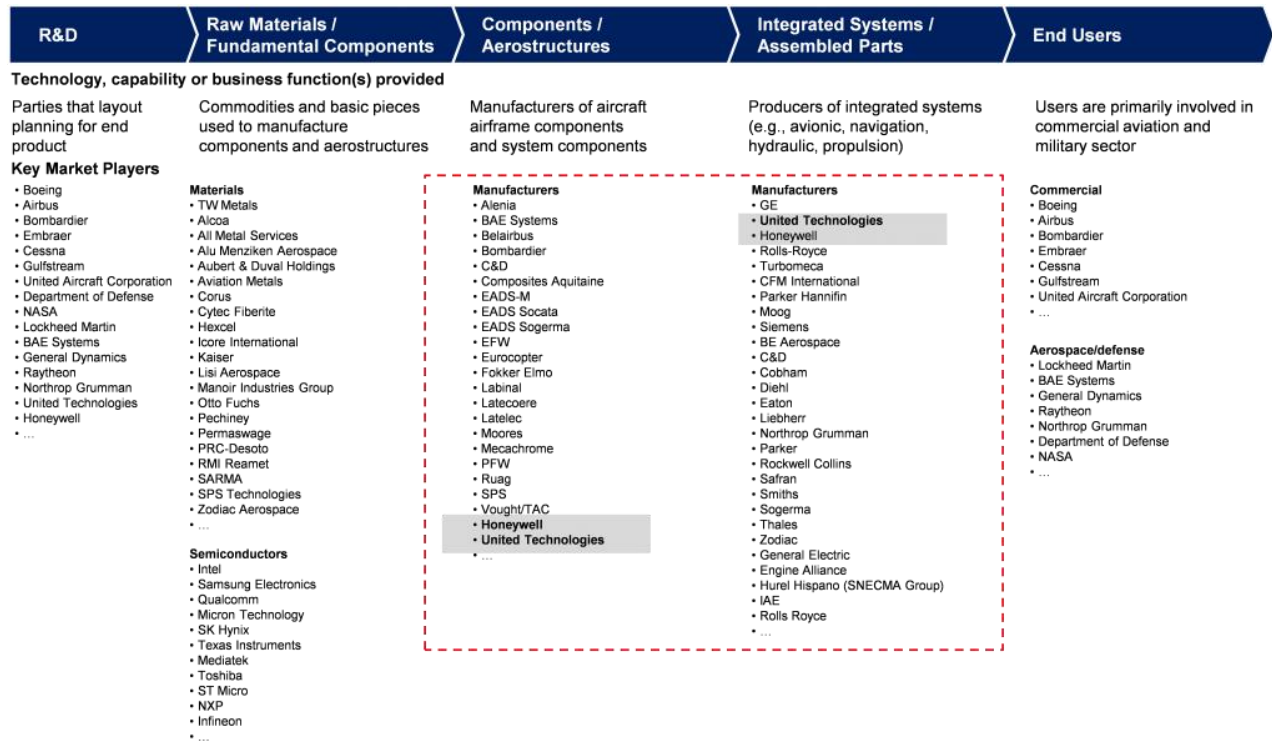
A combined product portfolio between multi-industry conglomerates Honeywell and UTC would yield an “aircraft platform” provider with leading share across the entire aircraft construction cycle: engines/propulsion parts, interior/cockpit, electronic systems, and ancillary infrastructure. See Exhibit 1.

Exhibit 1: The Aerospace and Defense Value Chain



In addition to mounting supplier dominance, the potential merger was expected to generate cost synergies of \$3.5B as well as a scaled R&D capacity of \$8B+, unlocking significant future investment opportunities while maintaining approximately 10% of the global aerospace and defense product market. A combination would result in disproportionate leverage in the value chain and potentially, continued vertical integration upstream. See Exhibit 2.

Exhibit 2: Market Participants across the Value Chain



This disproportionate leverage is precisely why such a deal was met with resistance by both end-customers and regulatory authorities. CEOs of Airbus and Boeing have pressed back against the idea, stating that Honeywell and United Technologies are major suppliers for both companies, and the reduced competition in their supply chain would act against the companies' interests. Beyond the private sector, as the U.S. Department of Defense (DoD) is a major customer, government agencies have been drafting proposals to prevent such mergers due to national security concerns. These obstacles are only coupled with the inevitable involvement of anti-trust regulators, which experts agree could only be satiated through select divestitures, challenging shareholder value.

While Honeywell will return to pursuit of smaller scale "bolt-on" M&A, a number of issues remain for parties across the value chain within the aerospace and defense industry going forward:

- **Go to market strategy** – With large scale collaboration ruled out, how will niche manufacturers develop their supplier strategy and if necessary, expand into adjacent product categories without purchasers perceiving potential competitive reduction in their supply chains?
- **Portfolio expansion** – How can major commercial and defense players expand into IP or technology specific segments of the value chain in order to develop competitive leverage while remaining outside the scrutiny of government intervention?
- **Supply chain/manufacturing**– Should major aerospace and defense players attempt to expand across the supply chain into raw material providers in order to widen value chain coverage and increase manufacturing capacity without seeming to directly monopolize the components and system market?
- **Product/technology advancement**–How can major players effectively leverage their own resources and R&D as well as that of outside parties towards product development strategy in order to gain competitive and bidding advantage?

Contact

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About Red Chalk Group's Management Consulting Practice

Red Chalk Group is a premier, boutique strategic advisor to senior executives at leading, global organizations. We are routinely engaged to advise on strategic growth platforms, technology disruption, investment decisions, and business-related intellectual property matters.

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