Stock Merger Report

United Technologies [UTX] Offer to Acquire Rockwell Collins [COL] for $20 billion ($140/share

What is happening?

United Technologies is offering to acquire Rockwell Collins for $140/share, a price that reflects 137.0% Fair Value (Fv). Rockwell Collins is currently trading at 128.2% Fv.

Rockwell Collins does have higher margins that United Technologies and with the expanded coverage of aircraft parts available with the combined company they would become more significant to both Boeing and Airbus. The combined company may also have increased purchasing power with their suppliers in raw materials and contract design.

Does it make sense?

United Technologies has $9 billion in cash which means $11 to $15 billion will be needed from debt to finance the deal. At the current 3.0% offering on other United Technology debt equates to a 2.3% after-tax cost. It is unsure whether any cost savings will be significant since the companies have little duplication in products and services. Engineering is rarely benefitted by creating larger groups; creativity is enhanced in smaller arrangements and aircraft design is constantly being chased by the creative "skunkworks".

We are doubtful this acquisition will produce favorable financial results long term for the company. We believe they may be chasing the higher margins from Rockwell Collins in hopes it will benefit their income statement very quickly. Longer term they may be surprised as to how difficult it will be to retain Rockwell Collins creative talent in a larger United Rockwell.