



UNITED TECHNOLOGIES CORP.

NYSE: UTX

Recommendation: Buy
Analyst: Dave Halferty

Target Price: \$88.00
Recent Price: \$78.07 (12/07/07)

Sector: Conglomerate
Market Capitalization: \$77.17B

HIGHLIGHTS

- Large-cap growth stock with market capitalization of \$77.17B
- Diversified conglomerate with strong subsidiaries (Carrier, Sikorsky, Otis, Pratt/Whitney)
- Unique global diversification with aerospace and commercial construction, and 60% of sales outside of US.
- Innovative technologies including Gen2 elevators, and geared turbofan jet engine
- Four consecutive quarters of positive earnings surprises
- Discounted cash flow model suggests fair value of \$88/share
- 1.60% dividend yield
- 61% of shares are held by institutions or mutual funds

BUSINESS SUMMARY

United Technologies Corporation (UTX) is a diversified conglomerate that provides technology products and services to the building systems and aerospace industries worldwide. It operates through six segments: Otis (elevators and escalators), Carrier (commercial and residential heating and cooling), UTC Fire and Security (electronic monitoring and security personnel), Pratt and Whitney (commercial, military, and general aviation engines), Hamilton Sundstrand (aerospace products), and Sikorsky (commercial and military helicopters). The company also engages in the development and marketing of distributed power generation systems, including stationary fuel cells and combined cooling, heating and power systems, for the on-site power market. In addition, UTX also engages in fuel cell production and development for commercial, transportation, and space applications. The company was incorporated in 1934 and is headquartered in Hartford, Connecticut.

PERFORMANCE AND MARKET STATISTICS

ROIC	48.2%
Revenue Growth	11.9%
Operating Margin	11.5%
EVA	\$3.2 B
52-Week Range	\$61.80-\$82.50
P/E Ratio	19.24
Beta (vs. S&P 500)	1.02

SOURCE: Yahoo! Finance

PRICE AND VOLUME HISTORY



SOURCE: BigCharts.com

FINANCIAL STATISTICS VS. INDUSTRY

Profitability	UTX	Industry
Gross Margin	26.72%	39.32%
Net Margin	8.23%	11.45%
Return on Assets	8.44%	6.34%
Return on Equity	20.55%	23.85%

Value	UTX	Industry
P/E Ratio	19.24	18.70

Growth (analysts' consensus)	UTX	Industry
5-yr Sales Growth Forecast	11.39%	6.88%
5-yr EPS Growth Forecast	14.15%	11.05%

SOURCES: Reuters, Goldman Sachs, S&P, Argus



VALUATION

A **discounted cash flow model** supports a 12-month target price of \$88.16. The model includes the following parameters and resulting financial ratios:

DCF model indicates a per share value of \$88

- Avg. revenue growth rates of 10.88% for next 5 years, 5.10% in years 6-10, and 3.5% thereafter
- WACC of 9.48% determined with beta of 1.02 (vs. S&P500 based on a 5-year regression)
- Income statement and balance sheet line items based on five-year historical averages
- Avg. gross profit margin = 26.6% for the forecast period (equal to the 5-year historical average)
- EPS increase at an average of 11.71% during forecast years 1-5 (below analysts' projections)
- ROIC tapers from 42.6% in 2007 to 33.0% in 2016 (most recent ROIC in 2006 = 48.2%)
- Average dividend yield of 1.77% during forecast years 1-5

A **P/E-based target price estimate** produces a lower, yet still favorable 12-month target price. Based on a P/E of 17.24 and projected 2008 EPS of \$4.78, the market would support a per share price of \$82.40.

RELATIVE VALUATION

The P/E ratio for UTX is higher than its peers, but its other relative valuation ratios indicate that buyers are paying higher multiples for its competitors and may be undervaluing UTX. UTX's current Value/NOPLAT ratio of 19.30 vs. its projected ratio of 17.11, also indicates that investors are willing to pay a higher multiple than that obtained using the parameters in the valuation model. The same situation exists with the Value/Invested Capital ratio, where the current ratio is 9.31, compared to a projection of 4.70.

Relative valuation supports undervalued thesis

Relative Valuation Statistics vs. Competitors

Measure	UTX	GE	MMM
P/E	19.24	17.35	14.39
PEG	1.50	1.52	1.56
M/B	3.80	3.34	5.51
Price/Sales	1.46	2.17	2.52
Ent. Value/Revenue	1.59	4.88	2.66
Ent. Value/EBITDA	10.367	23.000	9.954

SOURCE: Yahoo! Finance

RECOMMENDATION

Strong financial health, high consensus forecasts for growth, global diversification, and slight undervaluation position United Technologies to at least match, and possibly outperform the overall market, and earn it a **BUY** recommendation. Based on the DCF 12-month target price of \$88.16 and the projected 2008 dividend yield of 1.54%, the one year return would be 14.47%. The more conservative P/E target price estimate of \$82.40 and historical dividend yield of 1.28% suggest a return of 6.83%. Analysts expect continued strength from the company driven by strong global demand in aerospace and commercial construction. Improvements at Carrier and Sikorsky are also noted as factors that will drive future growth.

BUY opportunity with potential for 7-15% gain in coming year

PROFITABILITY AND CASH FLOWS

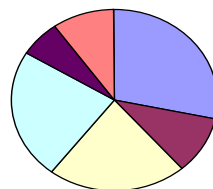
- **Revenue Statistics:** \$47.8 billion (2006) total revenue, \$6.4 billion (2006) to U.S. Government. Sector balance: Commercial/Industrial 63%, Commercial Aerospace 21%, Military/Space 16%.
- **International Presence:** Operations in 180 countries. International revenues are 60% of total. Geographic revenue balance: U.S. 40%, Europe 28%, Asia/Pacific 18%, Other 14%.
- **Reinvestment:** \$3.2 billion (2006) on R&D, \$954 million (2006) on capital expenditures.
- **2006 Profitability Statistics:** gross profit 27.6%, operating profit 11.5%, return on assets 8.5%

With 60% of sales to global markets UTC is positioned to benefit from a weak U.S. currency

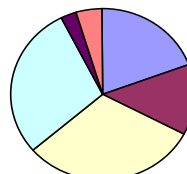
Statistics by Division

Division	Carrier	Hamilton Sundstrand	Otis	Pratt & Whitney	Sikorsky	UTC Fire & Security	Total
Employees	41,257	17,252	61,103	38,442	11,417	43,239	212,710
Revenues	13.50	5.00	10.30	11.10	3.20	4.70	47.80
Oper. Profit	1.20	0.83	1.90	1.80	0.17	0.30	6.21

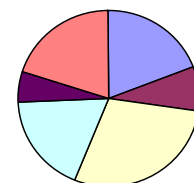
Revenue by Division



Operating Profit by Division



Employees by Division



Carrier Hamilton Sundstrand Otis Pratt & Whitney Sikorsky UTC Fire & Security



INDUSTRY ANALYSIS

UTX is the second-largest U.S. conglomerate. Although it has trailed its peers in some statistics, its earnings have grown much quicker, 13.4% vs. 6.7%, than its competitors. UTX is also uniquely positioned within the conglomerate industry with its global diversification and sector leading divisions in aerospace and commercial construction.

2nd largest U.S. conglomerate, uniquely positioned within aerospace and commercial construction

Competitor Comparison

Description	Market Cap	P/E	ROE %	Div. Yield	Debt to Equity	Price to Book	Net Profit
General Electric Co.	380.70B	17.55	20.43	3.00	4.36	3.37	13.14
United Technologies Corp.	72.62B	18.10	20.55	1.80	0.46	3.58	8.73
3M Co.	59.02B	13.81	40.28	2.40	0.48	5.38	15.54
Mitsui & Co. Ltd.	40.78B	11.12	16.25	0.00	1.57	1.85	NA
Danaher Corp.	25.19B	19.23	17.27	0.10	0.24	3.13	17.71
Textron Inc.	16.69B	19.96	27.51	1.40	2.72	5.31	7.82
PPG Industries Inc.	10.89B	13.96	22.18	3.20	0.34	2.72	6.77
Conglomerates	618.96B	18.30	20.70	2.42	2.99	14.31	11.60

CORPORATE STRATEGY AND POSITIONING

UTX intends to grow through innovation, and create opportunities by positioning itself as the industry leader within each sector it covers. Pratt & Whitney has accomplished this through its geared turbofan jet engine, whose unique design and capabilities maximize efficiency. Otis has set itself apart with its Gen2 elevator design that dramatically reduces energy consumption. Carrier developed its 13 SEER residential systems well ahead of U.S. mandates.

Industry leading divisions with technological advantage

UTX has also positioned itself as a major player in important developments within its industries. Carrier and Otis have significant roles in major construction projects throughout the world. Carrier was awarded nearly 70% of the contracts for cooling systems in construction for the 2008 Beijing Olympics. Otis also has a large role in Chinese construction with contracts for the Tianjin Olympic Stadium, Beijing Silvertie Center, and Shanghai Metro Line. Otis is also playing a major role in the tremendous construction in Dubai, UAE, including the Burj Dubai development. Their equipment was also used prominently in the Jakarta City Center in Indonesia, which opened in 2007.

Prominent roles in worldwide construction

UTX is also positioned well in the aerospace sector. Pratt & Whitney engines will power the Lightning II fighter jet, the largest fighter engine program ever. They have also established themselves as a leader in the emerging very light jet category. Hamilton Sundstrand has won numerous contracts for systems integration on Boeing 787 projects, increasing their already high content in that field. Sikorsky also won a very prominent endorsement when it was recently selected as the preferred supplier for the United Kingdom's royal family. This was actually a renewal of the current relationship but certainly carries high regard. With air travel expected to double worldwide by 2020, and carriers renewing their fleets with more efficient equipment, UTX is poised to benefit for several years from the leadership positions its aerospace divisions have established.

Strong aerospace roles that should provide continued growth

UTX has also recognized significant company-wide gains in safety and environmental issues. Between 1997 and 2006 they reduced lost work days by 80%. During that same time period they reduced energy consumption by 19%, even though the company doubled in size. Water use was also cut by 49% during this period.

RISKS

With 60% of its revenues tied to global markets UTX would be susceptible to any unforeseen downturn in the global economy. UTX is also vulnerable to industry-specific slowdowns such as further declines in the U. S. housing market.

Global and industry specific downturns represent biggest risks.



MANAGEMENT

Renowned leadership with extensive international experience

UTX has assembled a renowned leadership team that is well versed in international business. Their CEO George David was named one of the 30 best CEOs in the world by *Barron's* magazine. Their Vice President of Finance, Jim Geisler, was recognized as one of the top financial chiefs in the U.S. by *Institutional Investor*. The UTX board of directors also includes former Chairman of the Joint Chiefs of Staff, Richard Myers, and former New Jersey Governor Christine Todd Whitman.

UTX has experienced some changes at the top recently. Louis R. Chenevert was elected president and chief operating officer in 2006. However, he has previously served as president of Pratt & Whitney from 1999 through 2006, and has been with the company since 1993. In November, UTX announced that J. Thomas Bowler would succeed William L. Bucknall as Sr. Vice President of Human Resources. Once again though, Mr. Bowler has tremendous exposure across UTX units during his 28 years with the company.

Summary of Officers

Name	Position	Age	Since	History
George David	COB, CEO	64	1992	Mr. David was elected Chief Executive Officer in 1994 and Chairman in 1997. He has been a UTX director since 1992.
Louis R. Chenevert	Pres., COO, Director	49	1999	Mr. Chenevert was elected President and Chief Operating Officer in 2006. He previously served as President of the Pratt & Whitney from 1999-2006.
Ari Bousbib	Pres. of Otis Elevator	46	1997	Ari Bousbib has served as president of Otis since 2002. From 2000 until 2002, he was Otis' COO. From 1997 to 2000 he was a UTC vice president
Geraud Darnis	Pres. of Carrier Corp.	47	2001	Geraud Darnis was named President of Carrier in 2001. He joined UTX in 1983 with Otis and has held several positions with Otis and Carrier.
Stephen N. Finger	Pres. of Pratt Whitney	58	2003	Mr. Finger was named president of Pratt & Whitney in 2006, after serving as president of Sikorsky since 2003. He has been with UTX since 1970.
Jan van Dokkum	Pres. of UTC Power	53	2002	Mr van Dokkum was named President of UTC Power in 2002. He was President and CEO, Siemens Power Transmission and Distribution.
David P. Hess	Pres. Hamilton Substrand	51	2005	Mr. Hess was made President, Hamilton Sundstrand Corp. in 2005.
William M. Brown	Pres. UTC Fire/Security	44	2006	Mr. Brown was President, Asia Pacific, Carrier Corporation.
Jeffrey P. Pino	Pres. Sikorsky Aircraft	52	2006	Mr. Pino was Sr. V.P., Marketing & Commercial Programs, Sikorsky.

COPORATE NEWS AND KEY EVENTS

UTX estimates 2007 EPS at \$4.20-4.25, and 2008 EPS to grow 10-14%

UNITED TECHNOLOGIES SEES FY 2007 EPS GUIDANCE AT TOP END OF PRIOR GUIDANCE; UPDATES FY 2007 REVENUE GUIDANCE TO A RANGE IN LINE WITH ESTIMATES; COMMENTS ON FY 2008 EARNINGS GUIDANCE-CONFERENCE CALL

Thu November 8, 2007

United Technologies announced that for fiscal 2007, it now sees earnings per share (EPS) around \$4.20 to \$4.25 at the very top and revenue of at least \$53 billion and may be up to \$54 billion. For fiscal 2008, the Company expects earnings in the 10% to 14% growth range. According to Reuters Estimates, analysts are expecting the Company to report revenue of \$54 billion for fiscal 2007 and EPS of \$4.85 for fiscal 2008.

UTX-Spreadsheet-Final.xls, Valuation and Analysis Model, Cover Page, Key Inputs and Outputs

Key Inputs and Outputs
 Firm Ticker **UTX** Current Share Price **78.07** & Shares Outstanding **988.51** as of **28-Nov-07**

Income Forecasting Inputs/Outputs	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Year-by-Year Revenue Growth	14.40%	12.00%	10.50%	9.50%	8.00%	6.50%	5.50%	5.00%	4.50%	4.00%
Avg Rev Growth (1st 5 yrs, 10 yrs, last 5 yrs)	10.88%			7.99%			5.10%			
Net Income	4,239	4,796	5,343	5,889	6,392	6,817	7,192	7,545	7,871	8,166
Earnings Per Share (diluted shares)	4.22	4.78	5.33	5.88	6.39	6.82	7.21	7.57	7.90	8.21
Earnings Per Share Growth	13.7%	13.3%	11.5%	10.3%	8.7%	6.8%	5.6%	5.0%	4.4%	3.9%
Avg EPS Growth (1st 5 yrs, 10 yrs, last 5 yrs)	11.50%			8.32%			5.14%			

Balance Sheet Forecasting Inputs	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
AFN (interactive with 3 items below)	0.0	0.0	0.0	0.0	0.0	(282.7)	(1,253.8)	(2,301.2)	(3,074.2)	(3,404.4)
Adjustment to LT Debt (iterate or use Solver)						300.0	400.0	500.0	600.0	700.0
Issue Common Stock to Fund AFN										
Set Balance Sheet Cash Lower to Fund AFN	3855.0	4455.0	5386.1	6538.0	8018.7	9786.0	11000.0	12000.0	13000.0	14000.0

Valuation Inputs	Valuation Page Outputs	2006	2007	2008	2009	2016
Long-term Horizon Value Growth Rate	3.50%	0.00%	9.48%	9.48%	0.00%	9.48%
Risk Free Rate	4.50%	\$80,510	\$85,961	\$90,364	\$94,911	\$133,051
Beta	1.02	\$2,546	\$3,855	\$4,455	\$5,386	\$14,000
Market Risk Prem.	5.00%	\$83,056	\$89,816	\$94,819	\$100,297	\$147,051
ST Debt Interest Rate	7.00%	\$83,056	\$82,779	\$87,782	\$93,260	\$137,514
LT Debt Interest Rate	8.50%	\$83.41	\$83.14	\$88.16	\$93.66	\$138.11
Market Value of Firm's Stock	77173	22.48	19.70	18.45	17.57	16.83

Other Valuation Methods Inputs	Other Valuation Methods	2006	2007	2008	2009	2016
Analyst 5-year EPS Growth	11.70	118.38				
P/E Ratio	17.24	6.23				
AAA Bond Yield	5.35	1.47				
Retention Ratio	74.52%	17.22%				
Estimated P/E (Low)	10.00%		\$65.47	74.16	82.69	127.36
Estimated P/E (High)	10.00%		\$80.02	90.64	101.07	155.66

Notes:

DCF model produces target price well above current market price. PE Ratio targets also provide favorable range. Implied growth estimate is well below analysts projections. Intrinsic growth estimate also exceeds analysts projected growth estimates. Beta confirmed with regression analysis vs. S&P500. Forecast growth rates based on Reuters, and Yahoo! Finance current year, next year, and five year growth forecasts, then tapered for years 6-10.

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 1, Historical Income

Firm Ticker **UTX**

values in millions

Historical Income Statements					
Year	2002	2003	2004	2005	2006
Total Revenue	28,212	31,034	37,445	42,725	47,829
Cost of Goods Sold	20,161	22,531	27,242	30,935	34,740
Gross Profit	8,051	8,503	10,203	11,790	13,089
SG&A Expense	3,203	3,816	4,635	5,241	5,462
Research & Development	1,191	1,040	1,267	1,367	1,529
Depreciation/Amortization	0	0	0	0	0
Interest Expense (Income), Operating	381	375	363	498	606
Non-Recurring Expenses	0	0	0	0	0
Other Operating Expenses	0	0	0	0	0
Operating Income	3,276	3,272	3,938	4,684	5,492
Interest Income (Expense), Non-Operating	0	0	0	0	0
Gain (Loss) on Sale of Assets	0	0	0	0	0
Other Income, Net	0	0	0	0	0
Income Before Tax	3,276	3,272	3,938	4,684	5,492
Income Tax	887	868	1,031	1,253	1,494
Income After Tax	2,389	2,404	2,907	3,431	3,998
Minority Interest	-153	-168	-234	-267	-266
Equity in Affiliates	0	0	0	0	0
U.S. GAAP Adjustment	0	0	0	0	0
Net Income Before Extraordinary Items	2,236	2,236	2,673	3,164	3,732
Extraordinary Items, Total	0	0	0	-95	0
Net Income	2,236	2,236	2,673	3,069	3,732
Total Adjustments to Net Income	-31	-24	0	0	0
Basic Weighted Average Shares	945	948	993	991	980
Basic EPS Excluding Extraordinary Items	2.37	2.36	2.69	3.19	3.81
Basic EPS Including Extraordinary Items	2.37	2.36	2.69	3.10	3.81
Diluted Weighted Average Shares	1,011	1,006	1,011	1,015	1,006
Diluted EPS Excluding Extraordinary Items	2.21	2.22	2.64	3.12	3.71
Diluted EPS Including Extraordinary Items	2.21	2.22	2.64	3.03	3.71
Dividends Per Share - Common Stock	0.49	0.56	0.66	0.84	0.97
Gross Dividends - Common Stock	462	533	660	832	951
Retained Earnings	1,774	1,703	2,013	2,237	2,781

Forecasting Percentages							
Ratio	2002	2003	2004	2005	2006	Average	Manual
Revenue Growth	NA	10.0%	20.7%	14.1%	11.9%	14.2%	
COGS % or Sales	71.5%	72.6%	72.8%	72.4%	72.6%	72.4%	
SG&A % of Sales	11.4%	12.3%	12.4%	12.3%	11.4%	11.9%	
R&D % of Sales	4.2%	3.4%	3.4%	3.2%	3.2%	3.5%	3.2%
D&A % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Inc. Exp. Oper.	1.4%	1.2%	1.0%	1.2%	1.3%	1.2%	
Exp. Non-Rec.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other Exp.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Int. Inc. Non-Oper.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gain (Loss) Asset Sale	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other Income, Net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax Rate	27.1%	26.5%	26.2%	26.8%	27.2%	26.7%	
Minority Interest	-6.4%	-7.0%	-8.0%	-7.8%	-6.7%	-7.2%	
Equity in Affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
U.S. GAAP Adjustment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Extraordinary Items	Too unpredictable to forecast, set to zero						
Adjustments to NI	Too unpredictable to forecast, set to zero						
Share Growth	NA	0.3%	4.8%	-0.2%	-1.1%	0.8%	
Diluted Share Growth	NA	-0.5%	0.5%	0.4%	-0.9%	-0.1%	
Dividend Growth	NA	15.37%	23.83%	26.06%	14.30%	19.89%	

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 2, Forecast Income

Firm Ticker

UTX

10.88%

Year-by-Year Revenue Growth	14.40%	12.00%	10.50%	9.50%	8.00%	6.50%	5.50%	5.00%	4.50%	4.00%
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Revenue	54,716	61,282	67,717	74,150	80,082	85,287	89,978	94,477	98,729	102,678
Cost of Goods Sold	39,599	44,351	49,007	53,663	57,956	61,723	65,118	68,374	71,451	74,309
Gross Profit	15,118	16,932	18,710	20,487	22,126	23,564	24,860	26,103	27,278	28,369
SG&A Expense	6,535	7,319	8,087	8,856	9,564	10,186	10,746	11,283	11,791	12,263
Research & Development	1,751	1,961	2,167	2,373	2,563	2,729	2,879	3,023	3,159	3,286
Depreciation/Amortization	0	0	0	0	0	0	0	0	0	0
Interest Expense (Income), Operating	598	598	598	598	598	624	658	700	751	811
Non-Recurring Expenses	0	0	0	0	0	0	0	0	0	0
Other Operating Expenses	0	0	0	0	0	0	0	0	0	0
Operating Income	6,234	7,054	7,857	8,660	9,401	10,026	10,577	11,097	11,576	12,010
Interest Income (Expense), Non-Operating	0	0	0	0	0	0	0	0	0	0
Gain (Loss) on Sale of Assets	0	0	0	0	0	0	0	0	0	0
Other Income, Net	0	0	0	0	0	0	0	0	0	0
Income Before Tax	6,234	7,054	7,857	8,660	9,401	10,026	10,577	11,097	11,576	12,010
Income Tax	1,667	1,887	2,102	2,316	2,515	2,682	2,829	2,968	3,096	3,212
Income After Tax	4,566	5,167	5,756	6,344	6,887	7,344	7,748	8,128	8,480	8,798
Minority Interest	-328	-371	-413	-455	-494	-527	-556	-583	-608	-631
Equity in Affiliates	0	0	0	0	0	0	0	0	0	0
U.S. GAAP Adjustment	0	0	0	0	0	0	0	0	0	0
Net Income Before Extraordinary Items	4,239	4,796	5,343	5,889	6,392	6,817	7,192	7,545	7,871	8,166
Extraordinary Items, Total	0	0	0	0	0	0	0	0	0	0
Net Income	4,239	4,796	5,343	5,889	6,392	6,817	7,192	7,545	7,871	8,166
Total Adjustments to Net Income	0	0	0	0	0	0	0	0	0	0
Basic Weighted Average Shares	987	995	1,002	1,010	1,018	1,025	1,033	1,041	1,049	1,057
Basic EPS Excluding Extraordinary Items	4.29	4.82	5.33	5.83	6.28	6.65	6.96	7.25	7.51	7.73
Basic EPS Including Extraordinary Items	4.29	4.82	5.33	5.83	6.28	6.65	6.96	7.25	7.51	7.73
Diluted Weighted Average Shares	1,005	1,004	1,002	1,001	1,000	999	998	997	996	995
Diluted EPS Excluding Extraordinary Items	4.22	4.78	5.33	5.88	6.39	6.82	7.21	7.57	7.90	8.21
Diluted EPS Including Extraordinary Items	4.22	4.78	5.33	5.88	6.39	6.82	7.21	7.57	7.90	8.21
Dividends Per Share - Common Stock	1.13	1.36	1.63	1.96	2.35	2.83	3.39	4.07	4.89	5.86
Gross Dividends - Common Stock	1,140	1,367	1,639	1,965	2,356	2,824	3,386	4,059	4,867	5,834
Retained Earnings	3,099	3,429	3,704	3,924	4,037	3,993	3,806	3,486	3,005	2,332

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 3, Historical Balance Sheet

Firm Ticker

UTX

values in millions

Historical Balance Sheets					
year	2002	2003	2004	2005	2006
Assets					
Cash & Equivalents	2,080	1,623	2,265	2,247	2,546
Short Term Investments	0	0	0	0	0
Receivables, Total	4,277	5,187	6,315	7,240	7,679
Inventory, Total	3,803	4,420	5,078	5,659	6,657
Prepaid Expenses	0	0	0	0	0
Other Current Assets, Total	1,675	1,760	2,012	2,060	1,962
Total Current Assets	11,835	12,990	15,670	17,206	18,844
Property, Plant & Equipment	4,587	5,080	5,231	5,623	5,725
Goodwill	6,981	9,329	10,111	13,007	14,146
Intangibles	0	1,895	2,016	3,059	3,216
Long Term Investments	0	0	0	0	0
Insurance Receivables	771	1,031	1,090	1,152	1,073
Other Long Term Assets, Total	5,020	4,949	6,323	5,878	4,137
Other Assets, Total	0	0	0	0	0
Total Assets	29,194	35,274	40,441	45,925	47,141
Liabilities and Shareholder's Equity					
Accounts Payable	2,095	2,612	3,490	3,820	4,263
Payable/Accrued	0	0	0	0	0
Accrued Expenses	5,449	7,265	8,245	9,220	10,051
Notes Payable/Short Term Debt	197	669	1,320	1,612	857
Current Portion of LT Debt/Capital Leases	44	375	40	693	37
Other Current Liabilities	0	0	0	0	0
Total Current Liabilities	7,785	10,921	13,095	15,345	15,208
Long Term Debt, Total	4,632	4,257	4,231	5,935	7,037
Deferred Income Tax	0	0	0	0	0
Minority Interest	589	709	910	778	836
Other Liabilities, Total	7,405	7,680	7,939	6,876	6,763
Total Liabilities	20,411	23,567	26,175	28,934	29,844
Preferred Stock (redeemable)	0	0	0	0	0
Preferred Stock (unredeemable)	718	0	0	0	0
Common Stock	5,447	6,587	8,106	8,793	9,622
Additional Paid-In Capital	0	0	0	0	0
Retained Earnings (Accumulated Deficit)	10,836	12,527	13,880	16,051	18,754
Treasury Stock - Common	-4,951	-5,335	-6,312	-7,418	-9,413
ESOP Debt Guarantee	0	-273	-256	-241	-227
Other Equity	-3,267	-1,799	-1,152	-194	-1,439
Total Shareholders' Equity	8,783	11,707	14,266	16,991	17,297
Total Liabilities and Shareholders' Equity	29,194	35,274	40,441	45,925	47,141
Diluted Weighted Average Shares	939	1,028	1,022	1,014	996
Total Preferred Shares Outstanding	11	0	0	0	0

Forecasting Percentages							
Ratio	2002	2003	2004	2005	2006	Average	Manual
Cash % of Sales	7.4%	5.2%	6.0%	5.3%	5.3%	5.8%	
ST Invest. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Receivables % Sales	15.2%	16.7%	16.9%	16.9%	16.1%	16.3%	
Inventory % of Sales	13.5%	14.2%	13.6%	13.2%	13.9%	13.7%	
Pre. Exp. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other CA % of Sales	5.9%	5.7%	5.4%	4.8%	4.1%	5.2%	4.5%
Net PPE % of Sales	16.3%	16.4%	14.0%	13.2%	12.0%	14.3%	12.5%
Goodwill % of Sales	24.7%	30.1%	27.0%	30.4%	29.6%	28.4%	
Intangibles % of Sales	0.0%	6.1%	5.4%	7.2%	6.7%	5.1%	
LT Invest. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Notes Rec. % Sales	2.7%	3.3%	2.9%	2.7%	2.2%	2.8%	
Other LT Ass. % of Sales	17.8%	15.9%	16.9%	13.8%	8.6%	14.6%	10.0%
Other Assets % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Acc. Payable % of Sales	7.4%	8.4%	9.3%	8.9%	8.9%	8.6%	
Pay/Accrued % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Acc. Exp. % of Sales	19.3%	23.4%	22.0%	21.6%	21.0%	21.5%	
Notes Payable % Sales	0.7%	2.2%	3.5%	3.8%	1.8%	2.4%	
Curr. Debt % of Sales	0.2%	1.2%	0.1%	1.6%	0.1%	0.6%	
Other Curr. Liab. % Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
LT Debt % of Sales	LT Debt is Manually Adjusted for AFN in the Pro Formas						
Def. Inc. Tax % Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Min. Int. % of Sales	2.1%	2.3%	2.4%	1.8%	1.7%	2.1%	
Other Liab. % of Sales	26.2%	24.7%	21.2%	16.1%	14.1%	20.5%	15.0%
Set to last historical year's level throughout the forecasts.							
Set to last historical year's level throughout the forecasts.							
The model uses the more conservative diluted common shares number for total shares outstanding.							
Diluted Share Growth	NA	9.5%	-0.6%	-0.8%	-1.8%	1.6%	0.0%
Preferred Share Growth	NA	-100.0%	0.0%	0.0%	0.0%	-25.0%	0.0%

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 4, Forecast Balance Sheet

Firm Ticker UTX

Forecasted Balance Sheets - 10 Years										
year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets										
Cash & Equivalents	3,855	4,455	5,386	6,538	8,019	9,786	11,000	12,000	13,000	14,000
Short Term Investments	0	0	0	0	0	0	0	0	0	0
Receivables, Total	8,945	10,018	11,070	12,122	13,092	13,943	14,710	15,445	16,140	16,786
Inventory, Total	7,490	8,389	9,270	10,151	10,963	11,675	12,318	12,933	13,515	14,066
Prepaid Expenses	0	0	0	0	0	0	0	0	0	0
Other Current Assets, Total	2,462	2,758	3,047	3,337	3,604	3,838	4,049	4,251	4,443	4,621
Total Current Assets	22,753	25,620	28,774	32,147	35,677	39,242	42,076	44,630	47,098	49,462
Property, Plant & Equipment	6,840	7,660	8,465	9,269	10,010	10,661	11,247	11,810	12,341	12,835
Goodwill	15,521	17,383	19,208	21,033	22,716	24,192	25,523	26,799	28,005	29,125
Intangibles	2,777	3,110	3,436	3,763	4,064	4,328	4,566	4,794	5,010	5,211
Long Term Investments	0	0	0	0	0	0	0	0	0	0
Notes Receivable - Long Term	1,522	1,704	1,883	2,062	2,227	2,372	2,502	2,628	2,746	2,856
Other Long Term Assets, Total	5,472	6,128	6,772	7,415	8,008	8,529	8,998	9,448	9,873	10,268
Other Assets, Total	0	0	0	0	0	0	0	0	0	0
Total Assets	54,883	61,606	68,538	75,689	82,702	89,324	94,913	100,108	105,073	109,756
Liabilities and Shareholder's Equity										
Accounts Payable	4,707	5,272	5,826	6,379	6,890	7,338	7,741	8,128	8,494	8,834
Payable/Accrued	0	0	0	0	0	0	0	0	0	0
Accrued Expenses	11,746	13,156	14,537	15,918	17,192	18,309	19,316	20,282	21,195	22,042
Notes Payable/Short Term Debt	1,307	1,464	1,618	1,771	1,913	2,037	2,149	2,257	2,358	2,453
Current Portion of LT Debt/Capital Leases	347	389	429	470	508	541	571	599	626	651
Other Current Liabilities	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	18,108	20,281	22,410	24,539	26,502	28,225	29,777	31,266	32,673	33,980
Long Term Debt, Total	7,037	7,037	7,037	7,037	7,037	7,337	7,737	8,237	8,837	9,537
Deferred Income Tax	0	0	0	0	0	0	0	0	0	0
Minority Interest	1,135	1,271	1,405	1,538	1,661	1,769	1,866	1,960	2,048	2,130
Other Liabilities, Total	8,207	9,192	10,158	11,123	12,012	12,793	13,497	14,172	14,809	15,402
Total Liabilities	34,487	37,781	41,009	44,237	47,213	50,124	52,877	55,634	58,367	61,048
Preferred Stock (redeemable)	0	0	0	0	0	0	0	0	0	0
Preferred Stock (unredeemable)	0	0	0	0	0	0	0	0	0	0
Common Stock	9,622	9,622	9,622	9,622	9,622	9,622	9,622	9,622	9,622	9,622
Additional Paid-In Capital	0	0	0	0	0	0	0	0	0	0
Retained Earnings (Accumulated Deficit)	21,853	25,282	28,986	32,910	36,947	40,940	44,746	48,232	51,237	53,569
Treasury Stock - Common	-9,413	-9,413	-9,413	-9,413	-9,413	-9,413	-9,413	-9,413	-9,413	-9,413
ESOP Debt Guarantee	-227	-227	-227	-227	-227	-227	-227	-227	-227	-227
Other Equity	-1,439	-1,439	-1,439	-1,439	-1,439	-1,439	-1,439	-1,439	-1,439	-1,439
Total Shareholders' Equity	20,396	23,825	27,529	31,453	35,490	39,483	43,289	46,775	49,780	52,112
Total Liabilities and Shareholders' Equity	54,883	61,606	68,538	75,689	82,702	89,607	96,166	102,409	108,147	113,160
Total Common Shares (diluted)	996	996	996	996	996	996	996	996	996	996
Total Preferred Shares Outstanding	0	0	0	0	0	0	0	0	0	0
AFN (interactive with 3 items below)	0.0	0.0	0.0	0.0	0.0	(282.7)	(1,253.8)	(2,301.2)	(3,074.2)	(3,404.4)
Adjustment to LT Debt (iterate or use Solver)	0.0	0.0	0.0	0.0	0.0	300.0	400.0	500.0	600.0	700.0
Issue Common Stock to Fund AFN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Set Balance Sheet Cash Lower to Fund AFN	3855.0	4455.0	5386.1	6538.0	8018.7	9786.0	11000.0	12000.0	13000.0	14000.0

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 5, Valuation

Firm Ticker **UTX**

values in millions

Historical Ratios and Valuation Model						Forecasted Ratios and Valuation Model - 10 Years									
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liquidity															
Current	1.52	1.19	1.20	1.12	1.24	1.26	1.26	1.28	1.31	1.35	1.39	1.41	1.43	1.44	1.46
Quick	1.03	0.78	0.81	0.75	0.80	0.84	0.85	0.87	0.90	0.93	0.98	1.00	1.01	1.03	1.04
Net Working Capital to Assets	0.09	0.04	0.05	0.05	0.05	0.07	0.07	0.08	0.09	0.10	0.11	0.12	0.12	0.12	0.13
Asset Management															
Days Sales Outstanding	55.33	61.01	61.56	61.85	58.60	59.67	59.67	59.67	59.67	59.67	59.67	59.67	59.67	59.67	59.67
Inventory Turnover	7.42	7.02	7.37	7.55	7.18	7.30	7.30	7.30	7.30	7.30	7.30	7.30	7.30	7.30	7.30
Fixed Assets Turnover	6.15	6.11	7.16	7.60	8.35	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Total Assets Turnover	0.97	0.88	0.93	0.93	1.01	1.00	0.99	0.99	0.98	0.97	0.95	0.95	0.94	0.94	0.94
Debt Management															
Long-Term Debt to Equity	52.7%	36.4%	29.7%	34.9%	40.7%	34.5%	29.5%	25.6%	22.4%	19.8%	18.6%	17.9%	17.6%	17.8%	18.3%
Total Debt to Total Assets	16.5%	14.0%	13.7%	16.4%	16.7%	15.2%	13.8%	12.6%	11.6%	10.8%	10.5%	10.4%	10.5%	10.7%	10.9%
Times Interest Earned															
Profitability															
Gross Profit Margin	28.5%	27.4%	27.2%	27.6%	27.4%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%
Operating Profit Margin	11.6%	10.5%	10.5%	11.0%	11.5%	11.4%	11.5%	11.6%	11.7%	11.7%	11.8%	11.8%	11.7%	11.7%	11.7%
Net After-Tax Profit Margin	8.5%	7.7%	7.8%	8.0%	8.4%	8.3%	8.4%	8.5%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Total Assets Turnover	0.97	0.88	0.93	0.93	1.01	1.00	0.99	0.99	0.98	0.97	0.95	0.95	0.94	0.94	0.94
Return on Assets	8.2%	6.8%	7.2%	7.5%	8.5%	8.3%	8.4%	8.4%	8.3%	8.3%	8.2%	8.2%	8.1%	8.1%	8.0%
Equity Multiplier	3.32	3.01	2.83	2.70	2.73	2.69	2.59	2.49	2.41	2.33	2.26	2.19	2.14	2.11	2.11
Return on Equity	27.2%	20.5%	20.4%	20.2%	23.1%	22.4%	21.7%	20.9%	20.2%	19.4%	18.6%	17.9%	17.4%	17.0%	16.9%
EPS (using diluted shares and excluding extra. items)															
	2.21	2.22	2.64	3.03	3.71	4.22	4.78	5.33	5.88	6.39	6.82	7.21	7.57	7.90	8.21
DPS (dividends per share)															
	0.49	0.56	0.66	0.84	0.97	1.13	1.36	1.63	1.96	2.35	2.83	3.39	4.07	4.89	5.86
Dividend Yield															
					1.24%	1.37%	1.55%	1.75%	1.97%	2.23%	2.52%	2.89%	3.33%	3.85%	4.25%

Valuation Metrics Trend Analysis (NOPAT, EVA, MVA, FCF, and Capital in Millions)						Forecasted Valuation Metrics - 10 Years									
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NOPAT (net operating profit after tax)	2,389.00	2,404.00	2,907.00	3,431.00	3,998.00	4,566.47	5,167.03	5,755.57	6,343.98	6,886.55	7,343.98	7,748.11	8,128.47	8,479.98	8,797.60
ROIC (return on invested capital)	33.2%	37.4%	40.6%	44.4%	48.2%	42.8%	42.7%	41.6%	40.2%	38.3%	36.0%	34.9%	34.2%	33.5%	32.8%
EVA (economic value added)	1,705.95	1,793.97	2,228.60	2,698.07	3,211.59	3,554.07	4,020.11	4,444.29	4,847.41	5,179.44	5,407.74	5,641.30	5,873.65	6,080.07	6,256.18
FCF (free cash flow)		3,174.00	2,186.00	2,856.00	3,434.00	2,183.27	3,748.46	4,022.35	4,390.06	4,666.31	4,927.77	5,949.33	6,567.62	6,949.97	7,305.28
WACC (weighted avg cost of capital)	0	0	0	0	0	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%	9.48%
NOWC (net operating working capital)	2,616	1,353	1,923	2,106	2,568	3,837	4,434	5,363	6,513	7,992	9,757	10,970	11,968	12,967	13,966
Operating Long Term Assets	4,587	5,080	5,231	5,623	5,725	6,840	7,660	8,465	9,269	10,010	10,661	11,247	11,810	12,341	12,835
Total Operating Capital	7,203	6,433	7,154	7,729	8,293	10,676	12,095	13,828	15,782	18,002	20,418	22,217	23,778	25,308	26,800

Valuation (in millions where appropriate) - through year 2016

Long-term Horizon Value Growth Rate (user-supplied)

PV of Forecasted FCF, discounted at 10.00%

Value of Non-Operating Assets

Total Intrinsic Value of the Firm

Intrinsic Market Value of Equity

Per Share Intrinsic Value of the Firm

MVA (market value added)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	3.50%										
	\$80,510	\$85,961	\$90,364	\$94,911	\$99,521	\$104,292	\$109,254	\$113,665	\$117,876	\$122,104	\$133,051
	\$2,546	\$3,855	\$4,455	\$5,386	\$6,538	\$8,019	\$9,786	\$11,000	\$12,000	\$13,000	\$14,000
	\$83,056	\$89,816	\$94,819	\$100,297	\$106,059	\$112,311	\$119,040	\$124,665	\$129,876	\$135,104	\$147,051
	\$83,056	\$82,779	\$87,782	\$93,260	\$99,022	\$105,274	\$111,703	\$116,928	\$121,639	\$126,267	\$137,514
	\$83.41	\$83.14	\$88.16	\$93.66	\$99.45	\$105.73	\$112.19	\$117.43	\$122.16	\$126.81	\$138.11
	\$65,759	\$62,384	\$63,957	\$65,731	\$67,569	\$69,784	\$72,221	\$73,639	\$74,864	\$76,487	\$85,402

Weighted Average Cost of Capital Calculations					Capital Asset Pricing Model	
Item	Value	Percent	Cost	Weighted Cost		
ST Debt (from most recent balance sheet)	857	1.01%	7.00%	0.07%	Risk Free Rate	4.50%
LT Debt (from most recent balance sheet)	7,037	8.27%	8.50%	0.70%	Beta	1.02
MV Equity (look up mkt. cap of firm's stock)	77,173	90.72%	9.60%	8.71%	Market Risk Prem.	5.00%
Weighted Average Cost of Capital				9.48%	Cost of Equity	9.60%

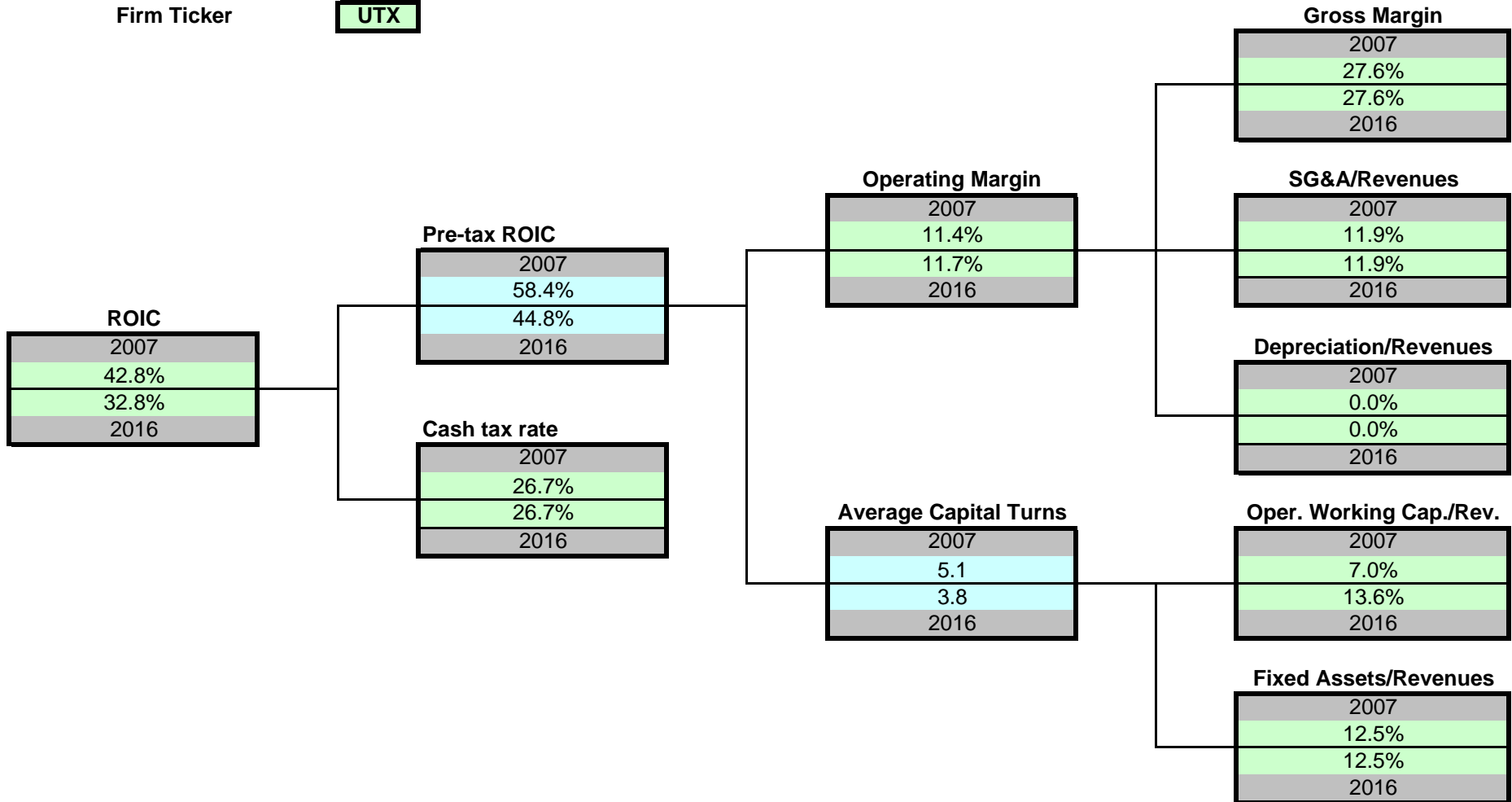
Current Share Price **\$78.07**

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 7, Forecasted ROIC Drivers

Forecasted ROIC: Decomposition and Drivers

Firm Ticker

UTX



UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 8, Other Valuation Methods

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Graham & Dodd Intrinsic Value

EPS	3.71
Analyst 5-year Growth	11.70
Intrinsic Value Estimate	118.38

Graham & Dodd Implied Growth

P/E Ratio	17.24
AAA Bond Yield	5.35
Implied Growth Estimate	6.23

PEG Ratio

P/E Ratio	17.24
Forecast Annual EPS Growth	11.70
PEG Ratio	1.47

Intrinsic Growth Estimate

ROE	23.11%
Retention Ratio	74.52%
Intrinsic Growth Estimate	17.22%

Target Price Based on P/E Multiple

Sales Forecast	54,716
Estimated Profit Margin	27.63%
Forecasted Net Income	4,239
Estimated # of Shares	1005
Forecasted EPS	4.22
Estimated P/E (Low)	15.52
Estimated P/E (High)	18.96
Target Price (Low)	\$65.47
Target Price (High)	\$80.02

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 9, Multiple Drivers

$$\frac{\text{Value}}{\text{NOPLAT}} = \frac{\left[1 - \frac{g}{\text{ROIC}}\right]}{\text{WACC} - g}$$

g The firm's long-term growth rate.
ROIC Return on invested capital.
WACC Weighted average cost of capital.

Value/NOPLAT: The value creation version of the Price/Earnings ratio. It measures how highly the market values each dollar of NOPLAT the firm produces, just as a Price/Earnings ratio measures how much an investor is willing to pay for each dollar of earnings.

Based on current market value and NOPLAT, investors are valuing UTX at a value/noplrat ratio of 19.30. However, applying the value/noplrat formula using the parameters (g, ROIC, & WACC) that the model is based on produces a ratio of 17.11. This supports the presumption that the model is conservative by projecting a ratio that investors have

Value/NOPLAT ratio	Projected 17.11	vs.	Current 19.30
g	4.40%		
ROIC	33.80%		
WACC	9.48%		

$$\frac{\text{Value}}{\text{Invested Capital}} = \text{ROIC} \times \frac{\left[1 - \frac{g}{\text{RONIC}}\right]}{\text{WACC} - g}$$

g The firm's long-term growth rate.
ROIC Return on invested capital.
RONIC Return on incremental capital (new investments).
WACC Weighted average cost of capital.

Value/Invested Capital: Allows for separate ROIC on new investments (RONIC).

As above, this ratio also indicates that the model is built on assumptions that produce a ratio below what investors have already demonstrated they are willing to pay.

Value/Capital ratio	Projected 4.70	vs.	Current 9.31
g	4.40%		
ROIC	33.80%		
RONIC	15.00%		
WACC	9.48%		

UTX-Spreadsheet-Final.xls Valuation and Analysis Model, Page 10, Financial Fitness Scorecard

Firm Ticker **UTX**

Piotroski's Financial Fitness Evaluator

	Value	Score	Rationale
Net Income	3,732	1	Score 1 point for positive net income
Free Cash Flow	3,434	1	Score 1 point for positive free cash flow
ROA (% change NI / % change in TA)	8.16	1	Score 1 point if % increase in NI > % increase in total assets
Earnings Quality (EBIT / NI)	1.47	1	Score 1 point if EBIT > NI
% Change Total Assets to % Change Total Liabilities	0.84	0	Score 1 point if % increase in TA > % increase in total TL
Working Capital (Current Ratio)	1.24	1	Award 1 point if Current Ratio is at least as large as last year
% Change Shares Outstanding (Diluted)	1.57%	1	Award 1 point if total diluted shares increased by less than 2%
Gross Margin	27.4%	0	Award 1 point if gross margin increased over last year
Asset Turnover (% change sales / % change assets)	4.51	1	Award 1 point if sales increase faster than total assets
Total Liabilities to EBITDA	5.43	0	Award 1 point if ratio is less than 5.0
Total Liabilities to Operating Cash Flow (EBIT)	5.43	0	Award 1 point if ratio is less than 4.0
Total Score (Maximum 11)		7	