Lockheed Martin to buy iconic helicopter maker Sikorsky

NEW YORK: Lockheed Martin said yesterday it will buy Sikorsky Aircraft, the storied US maker of the Black Hawk helicopter, in an all-cash $9 billion deal with United Technologies. "Sikorsky is a natural fit for Lockheed Martin and complements our broad portfolio of world-class aerospace and defense products and technologies," said Marillyn Hewson, Lockheed Martin chairman, president and chief executive, in a statement. The purchase of the UTC unit marks Lockheed's biggest deal since the company merged with Martin Marietta Corporation in 1995, a transaction valued at $10 billion at the time.

The 90-year-old Sikorsky Aircraft manufactures a range of military helicopters, including the famous Black Hawk, used by 25 nations for multi-mission support, and the Seahawk, used in marine operations. Its Marine One helicopter fleet is used to transport the US president, and last year Sikorsky won a $1.2 billion contract to build the next-generation of Marine Ones. Although best known for military helicopters, Sikorsky also makes commercial helicopters and fixed-wing aircraft for surveillance and transport missions.

Lockheed said the effective cost of the acquisition would be about $7.1 billion because the companies had agreed to structure the transaction as an asset purchase, generating a tax benefit of some $1.9 billion. The Bethesda, Maryland-based company said the acquisition was expected early in the first quarter of 2016 at the latest, contingent on regulatory approvals. According to Lockheed, the purchase will have no impact on dividends or plans to pare share count to below 300 million by end-2017. Lockheed, which employs about 112,000 people worldwide, had net revenue of $45.6 billion in 2014.

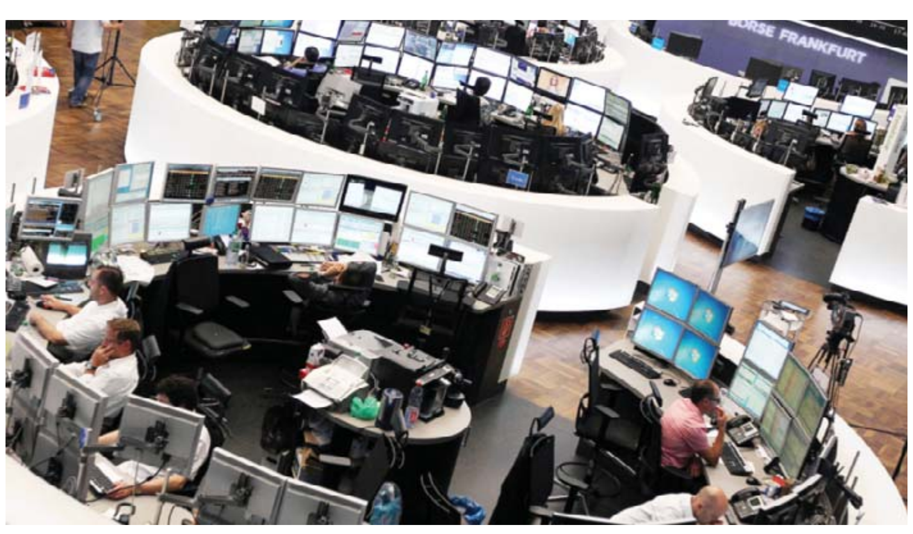
Sikorsky's 2014 sales jumped 19 percent year-over-year, to $7.5 billion, but its operating profit was down by more than half at $219 million. Sikorsky was founded in 1925 in New York by aviation pioneer Igor Sikorsky, an aeronautic engineer who left Russia for the United States after the Bolshevik revolution. Now headquartered in Stratford, Connecticut, Sikorsky has more than 15,000 employees. "It looks as though this would represent more than a bolt-on for Lockheed Martin, as it would be a significant revenue booster," said analyst Chris Lange at 24/7 Wall St.

UTC sharpens focus

"Exiting the helicopter business will allow UTC to better focus on providing high-technology systems and services to the aerospace and building industries and to deliver improved and sustained value to our customers and shareowners," said president and CEO Gregory Hayes in a separate statement. UTC businesses include Otis elevators, Pratt & Whitney engines, and aircraft equipment and systems. The company had $65.1 billion in net sales in 2014.

UTC said the net proceeds from the Sikorsky sale would be used to buy back additional shares. Lockheed separately reported Monday second-quarter net earnings of $929 million, up from $889 million in the year-ago quarter, with a sharp jump in cash from operations to $1.3 billion. In addition to announcing the Sikorsky acquisition, Lockheed said it was launching a strategic review of its government IT infrastructure services business and its technical services business. The company raised its 2015 forecast for earnings per share to $11.00-$11.30 from its April estimate of $10.85-$11.15. Dow member UTC fell 0.6 percent to $110.09 in morning trade, while Lockheed rose 1.7 percent to $204.62.—AFP

NEW YORK: Marine One, a Sikorsky VH-3D Sea King carrying US President Barack Obama, lands on the South Street heliport on lower Manhattan in New York. The United Technologies Corporation announced yesterday it is selling its helicopter manufacturing subsidiary Sikorsky for $9 billion to defense group Lockheed Martin. —AFP



FRANKFURT: Brokers sit in front of their screens at the stock exchange in Frankfurt am Main, western Germany yesterday as focus remained firmly on Greece, where banks reopened after a three-week shutdown imposed to prevent a run on ATMs from crashing the financial system. — AFP

Greece counting the cost

By Paul Taylor

The Greek crisis is not over, but it is entering calmer waters for a while following the agreement to seek a third bailout and the approval by the Greek and German parliaments of that flawed deal. Greek banks reopen for the first time in three weeks today, people will be able to withdraw a bit more money and many prices will go up as a result of the value-added tax increase. Athens has been lent the money to redeem bonds held by the European Central Bank today and pay off its arrears to the International Monetary Fund. This would otherwise have been the day of no return when Greece could have defaulted on the ECB, forcing it to end liquidity support that is keeping Greek banks alive.

So it's a good moment to count the financial and political cost, to Greece and to the European Union, of the last few months. Our in-depth portrait of Prime Minister Alexis Tsipras and his behaviour during the crisis runs this morning. It's called "the man who cost Greece billions". Whatever you think of Tsipras, there's no doubt that the Greek economy, which had begun a fragile recovery last year after shrinking by 25 percent, has suffered massively in the six months since he was elected. Yet he remains popular at home, has faced down a far-left rebellion in his Syriza party, reshuffled his cabinet and if early elections were held, he might well win again.

Various figures have been published for the financial cost of his decision to reject a bailout last month, call a referendum to endorse his refusal, then turn on a dime and accept even stricter conditions for a rescue that keeps his weakened country in the euro zone for now. The IMF put the additional financing need at 25 billion euros for the two weeks of bank closure. But that is just the tip of the iceberg. Jan Strupczewski's thorough economic analysis concludes that by one measure, the last year of political turmoil may have cost Greece 60 billion euros, or a third of its national income.

This began with former Prime Minister Antonis Samaras's decision not to complete the previous bailout program and to go for early elections instead. The bank run started before Syriza was elected. Greece's creditors may end up lending Athens three times the amount planned last year. The political cost is harder to calculate because some of it still lies ahead of us. But there's no doubt that months of fraught crisis management has been extremely divisive and damaging for the euro- zone. Europe's currency area is finding it ever harder to come up with new last-minute fixes because domestic politics are tugging in opposite directions.

True, some of the "software patches" added to the currency area since the crisis erupted in 2010 helped avoid major contagion from Greece to other euro zone sovereigns this time. Ireland, Portugal, Spain and Cyprus have been through wrenching adjustments and are more robust, despite deep social wounds. But the political will to complete the architecture of a stronger monetary union is in ever shorter supply. So there's a good chance that Europe will let this latest crisis go to waste without adopting the political or economic reforms to underpin the euro. And when the next crisis strikes, as it undoubtedly will, the ability to hold the euro area together will be weakened.—Reuters

Distraction of Greece aside, is all well with world economy?

LONDON: The race is on between the US and British central banks to be the first major economy to raise interest rates after a long period of unprecedented monetary generosity. It won't happen immediately but both Janet Yellen, who chairs the US Federal Reserve, and Bank of England Governor Mark Carney signaled in the past week that higher rates are close. Not everything in the world economy, however, is as sanguine as the US and British economies would appear to be.

In the euro-zone, European Central Bank President Mario Draghi has promised rock-bottom interest rates for the foreseeable future and pledged to see through the bank's monthly 60 billion euro asset purchases until September next year. In Asia, China's policymakers are struggling to contain stock market mayhem that could still undermine attempts to reverse a growth slowdown. The central bank is now set to pump $48 billion into the country's biggest lender.

Japan is still embarked on a massive quantitative easing asset-buying program and has just cut its growth outlook. Elsewhere, countries as diverse as Sweden, South Korea, Guatemala and Azerbaijan have cut rates over the past three to four weeks. Group of Seven economy Canada, Washington's closest developed trading partner, surprised by easing this past Thursday. In all, 37 central banks around the world have eased monetary policy so far this year to boost growth, fight deflation or both. Influential though they are, the Fed and BoE are outliers.

Caveat emptor

So are Yellen and Carney right to be signaling at least an end to near-universal easing? Clearly they believe that domestic growth, job creation and inflation are on trend to warrant it. But their views are couched in caution. Carney, for example, has said that interest rates will rise only gradually from their record low of 0.5 percent, and to lower levels than in the past. Meanwhile, Yellen told Congress that risks remain, notably from spillover from the Greek and Chinese crises. But she added: "The importance of the initial step to raise the federal funds rate target should not be overemphasized."

Paul Mortimer-Lee of BNP Paribas noted that Yellen expects the path of rate normalization to be "gradual", steepening or easing depending on how data pans out. Part of the reason for this caution - beyond the outside uncertainties of China's economy crashing and the euro zone unwinding - is that economic data has not been universally positive. Britain, for example, has seen prices bump close to deflation and the jobless rate rise for the first time in more than two years, although it is in much better shape than it was.

In the United States, manufacturing is expanding but is highly vulnerable to a strengthening dollar. Retail sales fell in June and May was revised downwards, real weekly wage earnings have slipped lately, and inflation remains weak at just 0.1 percent year-on-year. It still may be growing at around 3 percent, though. As for the euro zone, it is still struggling to keep Greece within its fold for fear of suggesting the currency project may not be as permanent as advertised. Growth is ticking up, but expected at only 1.5 percent this year. The ECB's Draghi was relatively calm about the state of the bloc's economy at his last news conference but only talked about interest rate hikes over the coming "years". He also went out of his way to say:

"If any factors were to lead to an unwarranted tightening of monetary policy, or if the outlook for price stability were to materially change, the Governing Council will respond...." The message underlying all this is that the United States and Britain may just be getting their heads above water but big risks remain and there is not a lot overly positive going on elsewhere in the world. —Reuters

Greek Prime Minister Alexis Tsipras

Renault-Nissan alliance posts record €3.8 billion in synergies

Sales, marketing and other functions increase contributions

DUBAI: The Renault-Nissan Alliance posted record synergies of €3.80 billion in 2014, up from €2.87 billion the previous year. Purchasing, engineering and manufacturing were the biggest contributors. The launch of the Alliance's first Common Module Family (CMF) vehicles, as well as the recent convergence of four key units, helped drive synergies in all three areas. Synergies are generated from cost reductions, cost avoidance and revenue increases. Only new synergies (not cumulative) are taken into account each year. Accounting for synergies helps Renault and Nissan determine if they are meeting their performance objectives. More significantly, the net savings and revenue enhancements enable both automakers to offer higher-value vehicles to customers around the world.

"Our Common Module Family system continues to drive synergies in all major areas, from purchasing to vehicle engineering and powertrains," said Carlos Ghosn, Chairman and CEO of the Renault-Nissan Alliance. "At the same time, the recent convergence of four key functions at Renault and Nissan-Engineering, Manufacturing Engineering & Supply Chain Management, Purchasing and Human Resources-is accelerating the momentum." Renault and Nissan converged the four functions on April 1, 2014. While Renault and Nissan remain separate companies, each function is led by a common Alliance executive vice president. Thanks to the convergence, the Alliance expects to overachieve on its goal of generating €4.3 billion in annualized synergies by 2016. That's up from €1.5 billion in 2009.

Common Module Family (CMF)

Common Module Family is the Alliance's unique system of modular vehicle architectures and an increasing source of synergies CMF enables Renault and Nissan to build a wider range of vehicles from a smaller pool of parts, while at the same time increasing customer choice and quality. Small vehicles are based on CMF-A, while mid-sized vehicles utilize CMF-B, and the largest vehicles use CMF-C/D.

In February 2014, Nissan launched an all-new version of the popular Qashqai crossover in Europe. The Qashqai is built on CMF-C/D and is the third CMF model for Nissan. In 2013, Nissan launched the Rogue SUV in the United States and X-Trail crossover SUV in China. Earlier this year, Renault launched its first CMF vehicles: the New Espace and the Kadjar. Both vehicles are built on CMF-C/D as well. In 2015, Renault will launch the Kwid in India. The Kwid is the first Alliance car built on the CMF-A architecture and will be produced at the Renault-Nissan plant in Chennai. Datsun will launch a vehicle on the same platform in 2016. By 2020, the Alliance expects 70 percent of its vehicles to be built on CMF architectures.

Cross production

The cross production of vehicles is also a major driver of manufacturing synergies. Cross production is expected to accelerate across the Alliance following the rollout of the Alliance Production Way (APW) at all plants around the world by the end of 2015. The APW manufacturing system is the result of best practice sharing throughout the organization and allows plants to make better use of their capacity by enabling them to produce both Renault and Nissan vehicles. In 2014, Nissan began production of the Rogue crossover in Renault's plant in Busan, South Korean, to meet stronger-than-expected demand in the US. The AVTOVAZ plant in Togliatti, Russia, is the Alliance's biggest production base in the world with capacity of nearly one million vehicles per year. The plant produces vehicles under four brands - Lada, Renault, Nissan and Datsun. The Alliance owns a majority stake in the joint venture that controls AVTOVAZ, Russia's largest automaker.

Contribution from other business areas

The Alliance is increasingly benefitting from synergies in other areas, such as sales and marketing. For example, thanks to the Alliance, Renault and Nissan are able to offer customers an extensive range of vehicles around the world. In 2014, the Alliance signed global contracts with several fleet customers, including multinational food-products corporation Danone.

North Korea economy grew 1%

SEOUL: North Korea's economy expanded by 1.0 percent in 2014, the South Korean central bank said, with a drought expected to hobble growth in one of the world's most isolated countries this year. After suffering a contraction in 2010, North Korea's economy grew, albeit at relatively low levels for four straight years. In 2013, GDP grew by 1.1 percent. The slightly faster expansion last year was marked by growth in services and signs of rising private consumption, the Bank of Korea said in an annual report. A drought could dent economic activity this year, as North Korea has said it is the worst it has seen in 100 years although Seoul has said it seems to be easing.

Impoverished North Korea does not release economic data and South Korea's central bank is the only government entity that provides official estimates of the North's economic performance. The statistics do not include black market economic activity that has grown steadily in recent years, creating a consuming class with demand for products such as cosmetics, smartphones, fruit juices and foreign clothes, according to residents and visitors. The increase in economic activity last year was attributed mainly to growth in services and building while farming, mining and manufacturing saw slower growth, the central bank said.

The Bank of Korea put North Korea's gross national income (GNI) at 34.2 trillion won ($29.85 billion). On a per capita basis, South Korea is 21 times richer. North Korea, a country of 24.7 million people, is one of the most isolated countries in the world. It is heavily sanctioned under UN resolutions for its nuclear and missile tests dating back to 2006. Ties with South Korea were cut back sharply after Seoul suspended most commercial projects and aid in 2010. Services rose 1.3 percent in 2014 on-year, up from 0.3 percent in 2013, the Bank of Korea said. The service industry made up 31.3 percent of the North Korean economy last year, up slightly from 30.0 percent in 2013.

All sub-indices under services saw gains, including retail sales, food and accommodation as well as logistics and communications, according to the Bank of Korea. Construction was up 1.4 percent, rebounding from a 1.0 percent decline in 2013, with an increase in buildings offsetting declines in road and plant construction. A central bank official said construction activity was focused on satellite cities surrounding Pyongyang last year, including in North Hamgyong Province. The same data showed total North Korea trade at $7.6 billion, up 3.7 percent from 2013. Exports fell 1.7 percent on-year while imports jumped 7.8 percent on increased demand for machinery and textiles. More than 90 percent of North Korea's trade is with neighboring China.—Reuters