Cote Rejected by Welch Leads Honeywell Past Rivals for GE Job
2013-05-02 10:00:00.3 GMT

By Thomas Black
May 2 (Bloomberg) -- General Electric Co. Chief Executive Officer Jack Welch invited Dave Cote to dinner in his private dining room at GE's headquarters in Fairfield, Connecticut, in the spring of 1999.

At the time, Cote was a 25-year GE veteran who'd worked his way up from an hourly job on the floor of GE's aircraft engine plant in Hooksett, New Hampshire. Since 1996, he'd been running GE's appliances unit and was now one of a half-dozen GE executives competing to succeed Welch as CEO. Welch cut to the chase: Cote would not get the job.

The news wasn't a surprise.

"I could see the handwriting on the wall that it wasn't going to be me," Cote said. Not only was GE Appliances missing short-term financial targets, it was also the company's only unit to see its profit decline in 1998.

Meanwhile, Cote's rivals were thriving. Earnings at GE's medical systems division, run by Jeff Immelt, grew 25 percent in 1999. Jim McNerney's aircraft engines unit had doubled its revenue over the previous five years. Under the direction of Robert Nardelli, GE's power systems division had increased sales of its steam turbines and gas-fired generators by 33 percent since 1994.

Although Welch told him he could stay at GE, Cote was gone by that fall, making him the first to bow out of the competition.

"I wanted to see what I was capable of," Cote, now 60, said.

Industrial Mess

After a brief stint running auto parts maker TRW Automotive Holdings Corp., Cote landed the top job at Honeywell International Inc. in February 2002. Honeywell was a mess, plagued by infighting and adrift after Welch made an unsuccessful $47 billion takeover bid.

In the wake of the failed deal, which was blocked by European regulators in 2001, Honeywell's board fired CEO Michael Bonsignore and lured ex-CEO Larry Bossidy out of retirement to restore order. Bossidy, one of Welch's golf buddies and a former GE executive himself, recruited Cote, betting he could turn around the diverse manufacturer.

Eleven years later, the bet has paid off. Under Cote's watch, shares of Honeywell have doubled in price, revenue has jumped 69 percent and profit margins have widened to 15.6 percent from 11.3 percent in 2002.

Track Records

The results look even better when compared with the track records of some of Cote's fellow GE alumni. Immelt, who became GE's CEO in 2001, has grappled with anemic sales growth and declining profit margins.

McNerney's tenure as CEO of Boeing Co., which he joined in 2005 after a four-year stint leading 3M Co., has been marred by delays in producing the company's signature 787 Dreamliner jet. After one of the jet's lithium-ion batteries caught fire, the Federal Aviation Administration grounded the 787 in January. Last month it was finally approved for flight, ending the longest ever ban of a commercial jet.

Nardelli may have fared the worst. In 2007 he was ousted as Home Depot's CEO after six years. He then ran Chrysler Corp. for two years until it filed for bankruptcy in 2009.

Considering the pedestrian performance of his three finalists, Welch may wish he hadn't been so quick to dismiss Cote.

"Cote is the one out of them who, based on the data, has the track record that suggests he was the most successful," said Scott Simmons, a managing director at the Chicago-based executive search firm Crist/Kolder Associates. "The guy has done an incredible job turning around a large company." Welch declined to comment.

Tightly Focused

The past six months have been particularly good for Cote, even though Honeywell continues to lag behind its competitors by some measures. Since October, the company's stock price is up more than 23 percent, and it's now trading above $70 a share for the first time.

Cote has streamlined Honeywell from a random collection of businesses into a tightly knit conglomerate that no longer misses earnings projections or surprises Wall Street with costly writedowns. More important, under Cote's watch, Honeywell has come up with some whiz-bang products in aeronautics and chemical engineering that have helped it weather slow growth in the U.S. and a recession in Europe.

Engineers at Honeywell's Phoenix lab are working on what they call synthetic vision: a cockpit screen combining infrared imaging with computer-generated views of a runway, which lets pilots see through thick fog and rain that would normally keep them from landing.

3-D Radar

They've also developed a 3-D radar system that helps pilots more precisely detect and avoid turbulence, hail and lightning.

In its energy unit, Honeywell has created a technology that extracts methanol from gasified coal and converts it into ethylene and propylene, the raw materials for plastics.

Honeywell has licensed the technology to four Chinese petrochemical firms, allowing them to use China's abundant supply of cheap coal as a raw material for plastics, rather than having to import expensive oil.

Cote has positioned Honeywell to take advantage of America's natural gas boom. Its energy services unit has been particularly profitable, thanks in part to equipment it has created and marketed to gas drillers to separate various natural gas liquids near wellheads, and filters that cull water, sulfur and other contaminants from natural gas.

Discounted Shares

Even with the turnaround, Honeywell is still overshadowed by some competitors. It trades at 14.8 times estimated 2013 earnings, a 7.9 percent discount to other industrial companies, including Danaher Corp., Tyco International Ltd., W.W. Grainger Inc. and 3M, according to Deane Dray, an analyst with Citigroup Inc.

"At some point that fear about 'Gee, I got burned a long time ago' or 'Gee, something bad still could happen' disappears, and it's the weight of the earnings and cash flow that finally causes things to tip," Cote said. "I think we're pretty close to that happening."

Investors are starting to believe. Back in 2010, when Cote announced five-year goals to increase revenue and profit margins, the plan was met with derision.

"People laughed," said Katie Pease, an analyst with Institutional Capital LLC, which manages $25 billion. "Now you actually feel comfortable holding Honeywell because you believe they can execute."

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