

CEO Spotlight **David Cote**

## Mr. Cote Goes to Washington

by Dyan Machan

Photograph by Gary Spector for Barron's



"Running a company is a hell of a lot more rewarding" than working with politicians, Cote says.

IN A COLD NOVEMBER RAIN, DAVID COTE AND HIS YOUNGEST brother Bruce stood facing a U-Haul truck stuck in the mud up to its axle on a rural New Hampshire road. Cote was 23, and his brother was 16. They'd been hired to clear brush from their family's property and haul it away. "It was freezing, I was hungry, and the job was impossible," recalls Bruce. He begged his brother to call a tow truck, to no avail. After hours of lurching backward and forward, inches at a time, they finally got the truck out of the mud.

Jump ahead 37 years, and David Cote (pronounced Coty) is exhibiting the same kind of stubbornness and persistence dealing with another kind of ditch. As a member of the steering committee of the Fix the Debt coalition, Cote is the public face of the organization's 140 corporate chieftains. A Republican with close ties to the Obama administration, he has taken the lead to coax Congress out of its political mud and the country out of a \$16.4 trillion ditch. "He's all in," says Maya MacGuineas, president of the Committee for a Responsible Federal Budget, a group affiliated with Fix the Debt.

So far, Cote isn't happy with the results. The year-end fiscal-cliff deal was light-years away from the \$4 trillion debt-reduction plan that he had argued for. Though frustrated, Cote is keeping the heat on Washington. "It's so painfully difficult to get anything done," he says, "Running a company is a hell of a lot more rewarding."

Cote's day job is leading the \$52 billion (market value) **Honeywell International** (ticker: HON), an industrial manufacturer with key operations in aerospace—jet engines and avionics—and automation and control, and energy-generation and performance materials. For 2012, the company is expected to report record earnings of \$3.9 billion, or \$4.93 a share, on revenue of \$39.4 billion. That's up from a loss of \$220 million on \$22.3 billion in revenue in 2002, the year Cote took over Honeywell, which was then rife with infighting following an ill-conceived 1999 merger with Allied Signal. "It was just a mess," Cote says.

Since arriving at the company, Cote personally has overseen the acquisition and integration of 70 companies and the sale of 50 units. He prefers small acquisitions to splashy big swings, which he says are often trouble because they get

done for the wrong reason. "He's quick to see where's the risk, where's the investment, and where to make money," says Jamie Dimon, CEO of JPMorgan Chase. Cote sits on the board of the big bank.

*Cote has been credited* with slowly moving Honeywell away from the defense business in advance of the military downsizing. What he has gleaned from his Capitol Hill exploits hasn't hurt here, although he calls such insight "minimal." Indeed, he's been preaching the vulnerabilities of the Defense Department budget for eight years. "I knew eventually I'd be right," he says with a smile.

Honeywell's defense space group accounts for 13% of sales, down from 17% in 2003.

Shifting from defense aviation to commercial hasn't been disruptive, as the two groups share research and development and plant facilities. Cote call it "survival of the most flexible."

An indifferent student, it took Cote six years to finish college.

Since 2002, Honeywell has increased its labor force 21%, to 132,000, while sales are up 72%. Keeping costs lean has helped him generate operating leverage to boost earnings. The critical tool he helped develop and has been employing is the Honeywell Operating System, based on Toyota's manufacturing processes. Thirty percent of the plants still are slated for the improvements that will double their productivity and fatten Honeywell's margins. "There is still runway," he says.

On Cote's watch, Honeywell's shares have more than tripled, to \$66, while the Standard & Poor's 500 is flat in the same period. **CHECK**

Investors have rewarded Honeywell for the smoother cycles and earnings predictability that Cote's decade-long turnaround efforts have forged, says analyst Nicholas Heymann of William Blair. But Cote isn't happy. At its current quote, the stock trades at 13.5 times year-ahead earnings estimates, a 5% discount to its group. Cote suspects the discount is an overhang from Honeywell's problem years. A few of Honeywell's peers, such as **Rockwell Automation** (ROK) and **Emerson Electric**

(EMR), sell for significant premiums. "There certainly seems to be room for another," he says.

*Pop music* and hip-hop blare throughout David Cote's office at Honeywell's Morristown, N.J., headquarters. *Round Here* by Counting Crows and *Not Afraid* by Eminem are just two of the favorites among the 10,783 songs on his iPod.

His desk is littered with books, magazine articles and company reports, and Boston team sports jerseys are draped nearby. A baseball given to him by Bobby Valentine, former manager of the Boston Red Sox, sits on top of a cardboard box stuffed with manila folders, and the office shelves are crammed with ribbons, bottle caps, skipping stones from New Zealand—items that boys collect. When a visitor inspects them for dust, Cote says, "I doubt they do much around here," indicating the cleaning staff has given up on him.

Cote says he feels uncomfortable when it's quiet, perhaps a throwback to growing up in a boisterous house with two brothers and two sisters. He wears an open-collared, greenish-grey silk shirt tucked into jeans, and casual Mephisto shoes—normal work attire—and looks modestly uncomfortable in a suit. Another thing he often wears: a smile that can spread to cover his face.

Honeywell's CEO grew up in a French-Canadian enclave of Suncook, N.H., a mill town about 30 miles north of Nashua. His father worked 12-hour days, six days a week, running a garage, while his mother managed five rambunctious children. Cote speaks with an undisguised New England accent—"idea," comes out as "i-dee-yeer"—and wears his working-class roots proudly, although not deliberately.

"He is authentic," says Mark Huddleston, president of the University of New Hampshire. For that reason, Huddleston couldn't envision Cote as a politician. "Politicians must construct different personas. He doesn't have the patience for that."

An indifferent student who took six years to graduate from UNH, he delivered the university's 2011 commencement address. One highlight: "The greatest learning occurs where you're uncomfortable because you don't know it all. Push yourself. Be willing to take a chance. Don't wait for approval or perfect knowledge."

"He's the classic case of the C student managing the

## ■ IN THE SPOTLIGHT

**Age:** 60**Education:** University of New Hampshire, B.A. business, 1976**CEO Since:** 2002**Corporate Boards:** JPMorgan Chase**First Job:** Picking blueberries at age 6 for 50 cents a quart**First Attempted Career:** Cod-fishing**Musical Instrument:** Accordion**Favorite Hip-Hop Artist:** Kanye West**Motorcycle:** 1998 Harley-Davidson Dyna low rider

Recent Price	<b>\$66.tk</b>
52-Week Range	<b>\$52.21 - \$66.87</b>
Market Value	<b>\$51.9 billion</b>
2012 Revenue*	<b>\$37.6 billion</b>
2012 Net Inc.*	<b>\$3.9 billion</b>
2012 EPS*	<b>\$4.48</b>
2013 EPS*	<b>\$4.93</b>
2013 P/E*	<b>13.5</b>
Dividend Yield	<b>2.5%</b>
Employees	<b>132,000</b>

\*Estimated

A students," Huddleston says.

Cote hated school and hated studying more. When he graduated from high school in 1970, he drifted, washing cars and pounding nails until he grew tired of it. He had passed up the deadlines for enrolling in UNH but browbeat an admissions officer until he was let in. At college he was branded a troublemaker. He once started a snowball fight that involved hundreds, he says. Cote was asked to move off campus. Soon he would move way off campus, when he took a break from school to buy a 33-foot fishing boat. For a year he was a cod fisherman in Maine, another exercise in how not to get ahead.

Being married and expecting his first child is what pushed him forward. "It scared the bejesus out of me," he says. The couple was living in a third-floor apartment "where you could see wind come through the rinky-dink drapes," he recalls. Cote completed his degree working as a night-shift laborer at a General Electric engine plant. After graduation in 1976, he became an auditor and later a financial analyst for the engine division.

What he found shocking about corporate life is how much he liked it. He found enormous pleasure in setting goals and achieving results. But no one led the way for him. Cote recalls a meeting in 1983 when he mentioned to a GE executive that he wanted to be a general manager. The executive laughed, and according to Coty, said, "Come on, be serious, what do you really want to do some day?"

"A number of times. I've been underestimated," Coty says.

He kept asking for new jobs and rose steadily in man-

**Personal:** Twice divorced, three adult children and three grandchildren. Home in New Jersey, farm in upstate New York. Breeds Black Angus and wagyu cattle, raises pigs, trains hunting dogs

**On His Office Wall:** A piece of the parquet floor from the old Boston Garden signed by Celtics legend Larry Bird

**On Leadership:** "You want to be right at the end of meeting, not the beginning."

**Required Reading:** "From Competitive Advantage to Corporate Strategy," Harvard Business Review, by Michael Porter, May/June 1987. "What is Strategy," Harvard Business Review, by Michael Porter, Nov/Dec 1996

**Blood Pressure:** 110 over 70. "I'm not a stress taker; I'm a stress giver."

ufacturing, marketing, planning, and general management in GE's consumer-electronics, jet engines, and plastics divisions. "I always said, 'Look, I'm willing to do it, and if I can't do it, I'm willing to take the chance that you'll fire me.'"

Cote sensed his capability in the way his suggestions were implemented by those above him. It wasn't until he was near 40 that he started aiming for a chief-executive role. In 1996, he was made CEO of the \$6 billion GE Appliances group. But when he knew he wasn't in the running for retiring chief Jack Welch's job, he took a job in 1999 at Cleveland's TRW, an industrial manu-

facturer, with the understanding he would become CEO.

The job and Cote's ascension to CEO at TRW were what he calls "an unpleasant process" and the kind of learning experience one hopes never to have. Cote was the fourth potential successor brought in to replace a CEO who didn't want to leave. The other three had been fired. Ultimately, the CEO stepped down in 2001 but not before he made Cote's life miserable. "You know he is trying to kill you," he says, "It was very unpleasant just to constantly be dealing with that."

*After two and a half years* at TRW, he was recruited as Honeywell's CEO in 2002. Though the company lost \$220 million that year, Cote saw the opportunity to execute his own vision assembling great businesses in industries that are expected to grow steadily at 4% to 6% percent a year. Cote got the warring factions speaking again, settled long-time asbestos claims, and introduced a Toyota-inspired operating system. In 2002, he started going to Washington so that lawmakers knew what Honeywell had to offer. Ultimately, part of what Honeywell had to offer was Cote.

His involvement stepped up when he was invited as one of a small group of CEOs to meet the newly elected president in 2009. Barack Obama named him to the Simpson-Bowles deficit-cutting commission in 2010. Cote's name has been mentioned for a possible cabinet post, including Commerce secretary. But he says he's happy where he is.

"I like what I'm doing; I like it a lot," he says, "Here, I can be relatively assured people will listen." ■