# Honeywell

2011 Outlook

**December 15, 2010** 

This report contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of fact, that address activities, events or developments that we or our management intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements are based on management's assumptions and assessments in light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. We identify the principal risks and uncertainties that affect our performance in our Form 10-K and other filings with the Securities and Exchange Commission.

Overview

### Confirming 2010: Sales ~\$33B; EPS(1) ~\$2.98; FCF ~\$3.5B

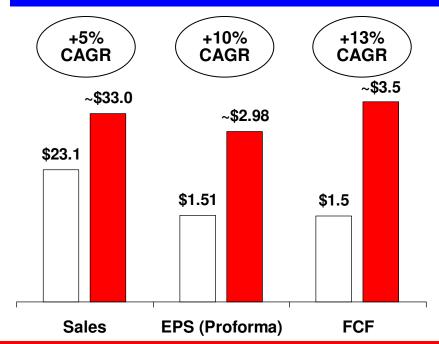
- 4Q In Line with Expectations
- Short Cycle Order Rate Moderating, Long Cycle Accelerates
- Exceptional Cash Flow Generation, Pre-funding ~\$600M Pension
- Seed Planting Continues to Enhance Growth
  - Robust New Product and Technology Pipeline
  - Emerging Regions Expansion: China, Middle East, India
  - Traction on Key Process Initiatives HOS/VPD™/FT
- Positive Momentum Going into 2011
  - Growing Faster than Served Markets
  - Continuing Segment Margin Improvement
  - Planning Double Digit Earnings Growth<sup>(1)</sup>

1) Proforma excluding any impact of mark-to-market pension adjustment

#### 2010 Momentum Continues...Ahead Of 5 Yr Plan

| Consolidated (\$B)            | 2010E            | Growth<br>2010E vs. 2009 |
|-------------------------------|------------------|--------------------------|
| Sales                         | ~\$33.0          | ~7%                      |
| Segment Profit Segment Margin | ~\$4.6<br>~13.8% | ~11%<br><i>~50 bps</i>   |
| EPS (Proforma)                | ~\$2.98          | ~11%                     |
| Free Cash Flow FCF Conversion | ~\$3.5<br>~150%  | ~5%                      |

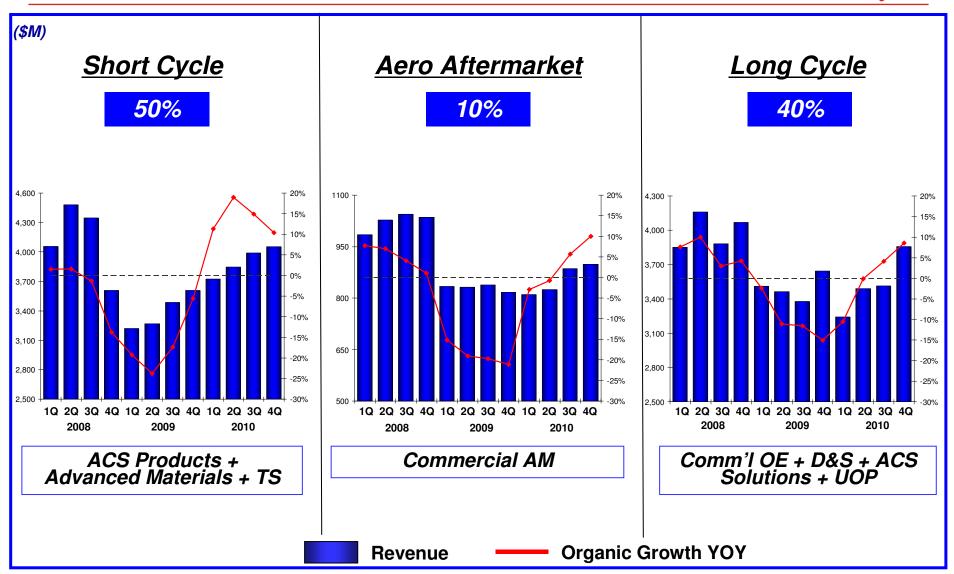
#### 2003-2010E Track Record



#### 2010 Highlights

- Continued End Market Improvement
- OEF And Other Productivity Actions
   More than Offset Labor Inflation
- Segment Margin Growth ~50 bps
- Focused Efforts → New Products and Emerging Markets
- Continued Growth Investments
- Progress on Key Initiatives
- Exceptional Free Cash Flow
- Pension Accounting Change, Funding

Strong Operating Earnings And Cash Flow



# Positive Momentum Across Diverse Portfolio

| Business               | 2011                       | 2011               |
|------------------------|----------------------------|--------------------|
| Dusilless              | Drivers                    | Planning           |
| AT&R                   | Flight Hours               | 4% to 6%           |
| Alan                   | OE Deliveries              | 6% to 8%           |
| B&GA                   | TFE Flight Hours           | 3% to 8%           |
| DAGA                   | OE Deliveries              | (0)% to (5)%       |
| Defense                | DOD Budget                 | 0% to 2%           |
|                        | US/EU Housing Starts       | Up Slightly        |
|                        | US/EU Non-Res              | Bottom in Mid 2011 |
| ACS – Developed        | Retrofit                   | Moderate Growth    |
|                        | Industrial Prod/Regulation | Moderate Growth    |
|                        | Industrial Cap/Op Ex       | Stable             |
| ACS Emorging           | New Construction           | Growth             |
| ACS – Emerging         | Industrial CapEx           | Expansion          |
|                        | Europe Auto Production     | 1% to 4%           |
| Turbocharging          | Europe Diesel Penetration  | 2 pts              |
|                        | New Turbo Launches         | 100+               |
| UOP, Process Solutions | Refining / Gas / Petrochem | Stable, EM Growth  |

### **Overall Positive Framework For 2011**

# **2011 Financial Guidance Summary**

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| Consolidated (\$B)            | 2011<br>Financial Outlook  | Growth<br>2011E vs. 2010E     |
|-------------------------------|----------------------------|-------------------------------|
| Revenues                      | \$ 35.0 - 36.0             | 6% - 9%                       |
| Segment Profit Segment Margin | 5.1 - 5.3<br>14.5% - 14.8% | 11% - 15%<br>70 bps - 100 bps |
| Net Income                    | 2.8 - 3.0                  | 20% - 27%                     |
| EPS (1)                       | \$ 3.50 - \$ 3.70          | 17% - 24%                     |
| Free Cash Flow (2)            | \$ 3.5 - 3.7               | 0% - 5%                       |

<sup>1)</sup> Proforma, V% compared to 2010 proforma excluding any mark-to-market pension adjustments

#### **Low End**

- Lower Global GDP Growth
- Emerging Markets Moderate
- Unfavorable Mix ACS Products, Adv. Materials
- Inflation / Productivity Worse
- Stronger Dollar EUR < \$1.25</li>

#### **High End**

- + Stronger Global GDP Growth
- + Emerging Markets Overdrive
- + Favorable Mix Comm'l AM, UOP
- + Inflation / Productivity Better
- + Weaker Dollar EUR > \$1.25

### Positive Outlook For 2011

<sup>2)</sup> FCF excluding \$1B U.S. pension contribution in 2011

| 2011 P&L (Income) /<br>Expense | (\$M)          |
|--------------------------------|----------------|
| Ongoing Pension <sup>(1)</sup> | ~200           |
| ОРЕВ                           | ~60-70         |
| Interest                       | ~410           |
| Environmental                  | ~200           |
| Net Asbestos                   | ~150-160       |
| Stock Options / RUs            | ~175           |
| Repositioning (2)              | ~0-50          |
| BTL Subtotal (Pre-tax)         | ~1,200 - 1,265 |

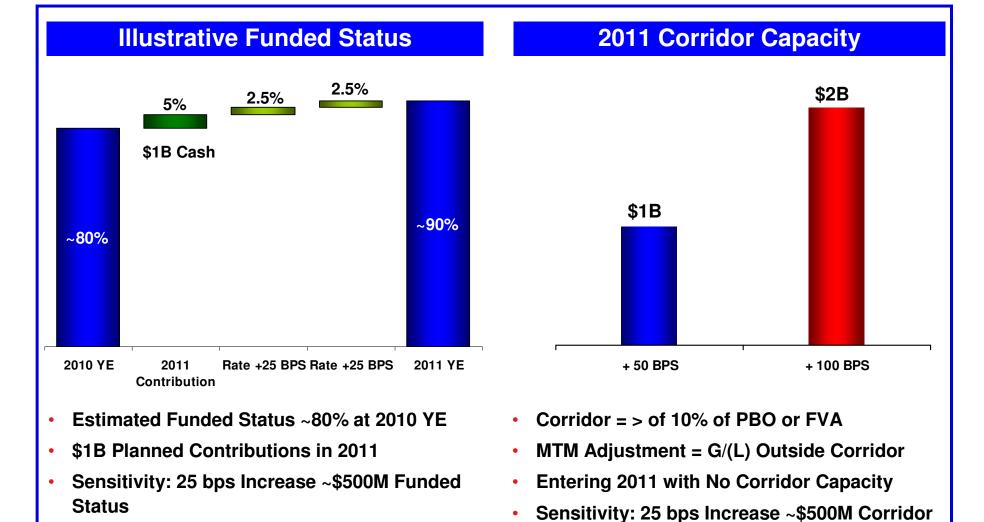
| Cash Commitments | (\$M)          |
|------------------|----------------|
| Pension          | ~1,000         |
| Environmental    | ~325           |
| Net Asbestos     | ~100-150       |
| Repo and Other   | ~150           |
| BTL (Pre-tax)    | ~1,575 - 1,625 |
|                  |                |
| BTL (After-tax)  | ~985 - 1,015   |

- 1) Includes service and interest costs and assumed return on plan assets
- 2) Anticipate redeployment of one-time gains of \$100-150 million

Pension Assumption Utilizes New MTM Acctg Approach
 Cash Commitment Includes Pension Prefunding

# Pension Funded Status And Corridor Capacity

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## Comprehensive Approach To Pension Management

Capacity

**Assumes 8% Return on Assets in 2011** 

Aerospace

| (\$B)          | 2011<br>Financial Outlook |       | Growth<br>vs. 2010E |
|----------------|---------------------------|-------|---------------------|
| Revenues       | \$10.8 <i>-</i>           | 11.2  | 1% - 5%             |
| Segment Profit | \$1.9 <i>-</i>            | 2.0   | <b>5% - 12%</b>     |
| Margin         | 17.8% -                   | 18.2% | 70 bps - 110 bps    |

#### **Business Highlights**

- + Software AM Business Model (RMUs)
- + Commercial OE Order Rates
- + Commercial Spares Recovery
- + Cost Actions
- Defense Program Ramp Downs

| <u>Segment</u> | Org. Growth       | <u>Drivers / <mark>Risks</mark></u>                 |
|----------------|-------------------|---|
| AT&R OE        | $\leftrightarrow$ | New Deliveries / Program Delays                     |
| AT&R AM        | $\uparrow$        | Flight Hours / Airline Profitability                |
| B&GA OE        | $\uparrow$        | Platform Mix, Production Ramp-up / Deliveries       |
| B&GA AM        | <b>↑</b>          | TFE Flight Hours, RMUs / Platform Mix               |
| D&S            | $\downarrow$      | Base Defense Budget Flattish / Budget Reprogramming |

## Commercial Strength Offsets Defense Softness

| (\$B)          | 2011<br>Financial Outlook |       | Growth<br>vs. 2010E |
|----------------|---------------------------|-------|---------------------|
| Revenues       | \$14.7 <i>-</i>           | 15.1  | 8% - 11%            |
| Segment Profit | \$2.0 -                   | 2.1   | 14% - 19%           |
| Margin         | 13.6% -                   | 13.9% | 70 bps - 100 bps    |

#### **Business Highlights**

- + Integrating Recent Acquisitions
- + Continued Short Cycle Growth
- + Growth Across All Regions Top Tier Perf.
- + New Products ECC, HLS, HSM
- Cont'd Commercial Construction Softness

| <u>Segment</u>    | Org. Growth | <u>Drivers / Risks</u>                               |
|-------------------|-------------|--|
| ECC               | $\uparrow$  | NPI, Energy Efficiency / Non-Res Outlook             |
| S&C               | $\uparrow$  | Industrial Recovery, Global Penetration / Comps      |
| HSM               | $\uparrow$  | Transportation/Logistics, Healthcare / Retail        |
| Life Safety       | $\uparrow$  | Industrial Recovery, Safety Regulations / Non-Res    |
| Security          | $\uparrow$  | Global Penetration / Res Retrofit & Non-Res Outlook  |
| Building Solution | ons ↑       | Energy Solutions, High-end Security / Credit Markets |
| Process Solution  | ons ↑       | EMR Infrastructure, DM Asset Optimization / Delays   |

| (\$B)          | 201<br>Financial |       | Growth<br>vs. 2010E |
|----------------|------------------|-------|---------------------|
| Revenues       | \$4.3 <i>-</i>   | 4.5   | 5% - 8%             |
| Segment Profit | <b>\$0.5</b> -   | 0.6   | 14% - 20%           |
| Margin         | 12.2% -          | 12.5% | 100 bps - 130 bps   |

#### **Business Highlights**

- + Double Digit Global Boosting Growth
- + Turbo Share Gains From New Launches
- + Growth From Gas, Diesel & Comm'l Vehicles
- + China Growth Strong
- + Share Gains Across Brands In CPG

| <u>Segment</u> | Org. Growth | <u>Drivers / Risks</u>                                  |
|----------------|-------------|---|
| Turbo/FM       | <b>↑</b>    | New Launches, Turbo Pen, Global Production / EU OE Prod |
| CPG            | <b>↑</b>    | Brand Share Gains / Fuel Prices                         |

#### Multi-Year Positive Outlook

| (\$B)          | 2011<br>Financial Outlook |       | Growth<br>vs. 2010E |
|----------------|---------------------------|-------|---------------------|
| Revenues       | \$5.0 <i>-</i>            | 5.2   | 7% - 10%            |
| Segment Profit | <b>\$0.8</b> <i>-</i>     | 0.9   | 10% - 16%           |
| Margin         | 16.1% -                   | 16.3% | 60 bps - 80 bps     |

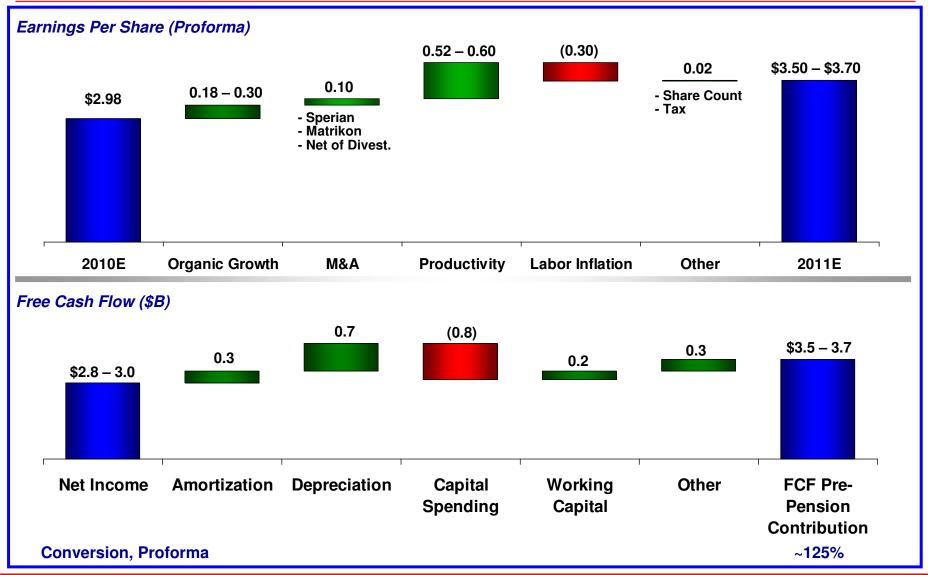
#### **Business Highlights**

- + Global Markets / Channel Penetration
- + UOP Projects Uptick
- + Commercial Excellence
- + Plant Performance
- Raw Material Costs

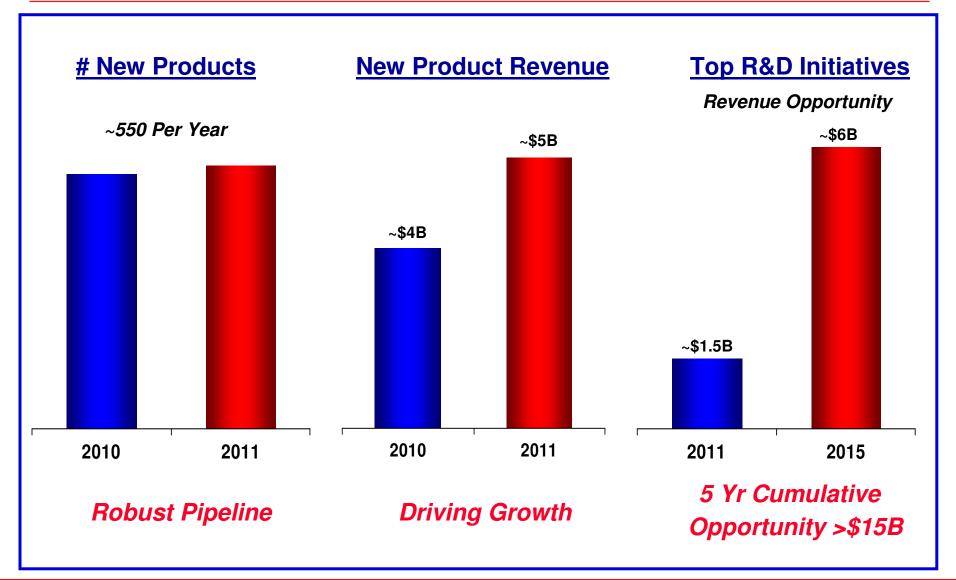
| <u>Segment</u> | Org. Growth       | <u>Drivers / Risks</u>                            |
|----------------|-------------------|---|
| UOP            | $\uparrow$        | Global Refining, Petrochem, Gas Projects / Delays |
| R&C            | <b>↑</b>          | Formula Pricing, Resins Demand / Capacity         |
| Fluorines      | $\leftrightarrow$ | NPI, LGWP / Res Retrofit and Non-Res Outlook      |
| Specialty      | $\uparrow$        | Niche New Products / Industrial Production        |

## **UOP Uptick Drives Growth**

2011 Walks



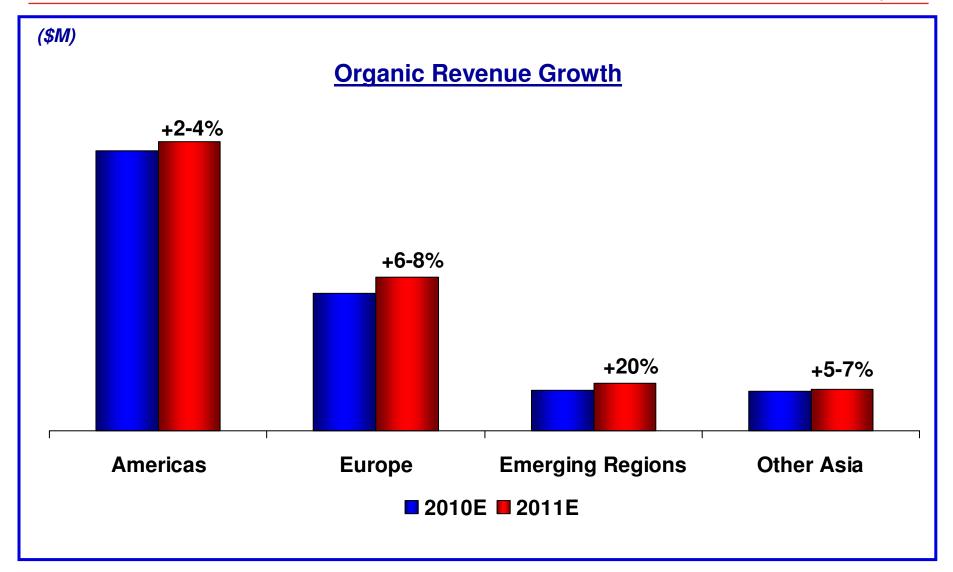
# Clear Path To Targets



Driving Growth Through New Products/Technologies

# **Seed Planting – Geographic Growth**

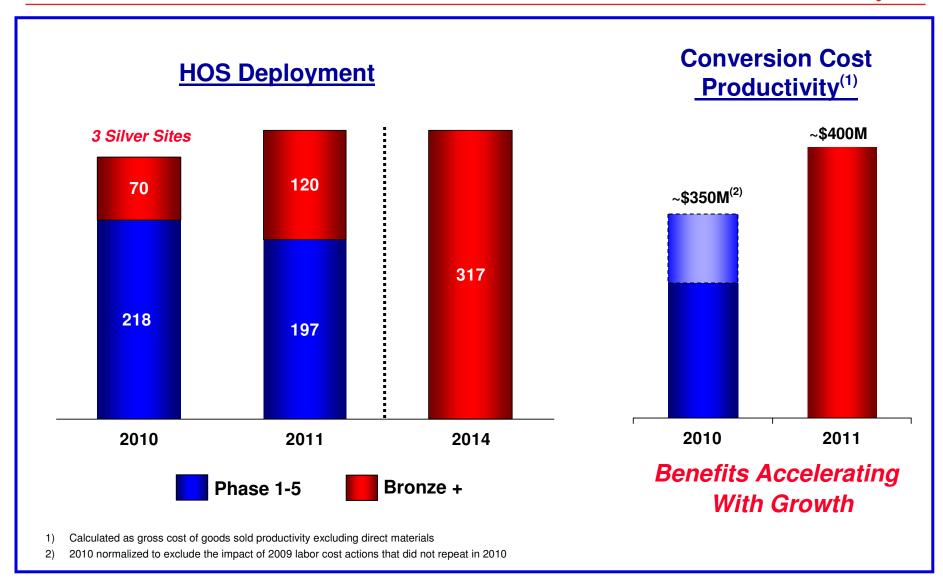
**Honeywell** 



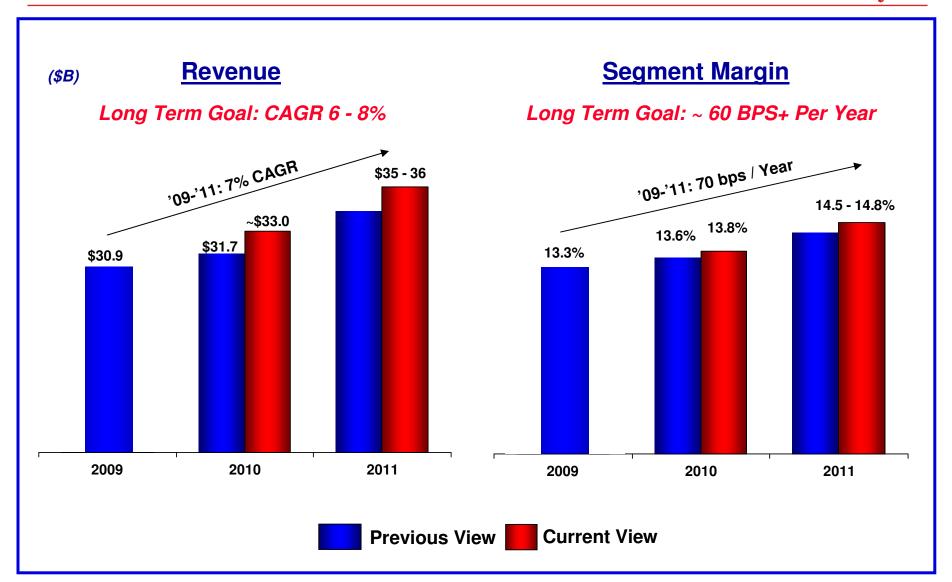
# **Growth In All Regions**

# **Seed Planting – HOS Deployment**

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# Driving Sustainable Operating Improvement



## 2010-2011 Ahead Of Expectations

- Grow Top Line Faster Than Markets
  - Continued Good Momentum, Order Rates Positive
  - Double Digit Growth in Emerging Regions
- Strong Operating Earnings and Cash Flow
  - Volume Growth, Favorable Mix, Commercial and R&D Effectiveness
  - Controlling Fixed Costs (OEF), Benefits from Ongoing Repositioning
  - Key Process Enablers Driving Productivity
  - Delivering Margin Expansion; 100% + Free Cash Flow Conversion
- HON Playbook = Long-term Value Creation
  - Great Positions in Good Industries, 5 Initiatives, One HON Culture
  - Seed Planting: Innovation, Productivity, Global Expansion → It's Working
- Ahead of 5 Year Plan → Positioned to Outperform

Strong Performance, Investing In The Future

# Appendix

# Reconciliation of non-GAAP Measures to GAAP Measures

# Reconciliation of Segment Profit to Operating Income and Calculation of Segment Profit and Operating Income Margin

|  | 2009        |            |  |
|--|-------------|------------|--|
| SB)  | As Reported | As Revised |  |
| Sales  | \$30.9      | \$30.9     |  |
| Cost of Products and Services Sold           | (23.2)      | (24.0)     |  |
| Selling, General and Administrative Expenses | (4.3)       | (4.4)      |  |
| Operating Income                             | \$3.4       | \$2.5      |  |
| Stock Based Compensation (1)                 | 0.1         | 0.1        |  |
| Repositioning and Other (1, 2)               | 0.5         | 0.5        |  |
| Pension, Ongoing Expense (1)                 | 0.1         | 0.3        |  |
| Pension, Mark-to-Market Expense (1)          | 0.0         | 0.7        |  |
| OPEB Expense (1)                             | (0.0)       | (0.0)      |  |
| Segment Profit                               | \$4.1       | \$4.1      |  |
| Operating Income                             | \$3.4       | \$2.5      |  |
| ÷ Sales                                      | \$30.9      | \$30.9     |  |
| Operating Income Margin %                    | 11.0%       | 8.1%       |  |
| Segment Profit                               | \$4.1       | \$4.1      |  |
| ÷ Sales                                      | \$30.9      | \$30.9     |  |
| Segment Profit Margin %                      | 13.3%       | 13.3%      |  |

<sup>(1)</sup> Included in cost of products and services sold and selling, general and administrative expenses

<sup>(2)</sup> Includes repositioning, asbestos, environmental expenses and equity income

# Reconciliation of Segment Profit to Operating Income and Calculation of Segment Profit and Operating Income Margin

| <i>\$B)</i>                                  | <b>2010E</b>  | <b>2011E</b>         |
|--|---------------|----------------------|
| Sales  | ~\$33.0       | \$35.0 - 36.0        |
| Cost of Products and Services Sold           | ~(24.6)       | (25.8) - (26.8)      |
| Selling, General and Administrative Expenses | ~(4.7)        | (4.9) - (5.0)        |
| Operating Income                             | ~\$3.7        | <u>\$4.2 - 4.4</u>   |
| Stock Based Compensation (1)                 | ~0.2          | ~0.2                 |
| Repositioning and Other (1, 2)               | ~0.6          | ~0.4                 |
| Pension, Ongoing Expense (1)                 | ~0.2          | ~0.2                 |
| Pension, Mark-to-Market Expense (1)          | TBD           | TBD                  |
| OPEB Expense (1)                             | ~0.0          | ~0.1                 |
| Segment Profit                               | ~\$4.6        | \$5.1 - 5.3          |
| Operating Income                             | ~\$3.7        | \$4.2 - 4.4          |
| ÷Sales                                       | ~\$33.0       | \$35.0 - 36.0        |
| Operating Income Margin %                    | 11.0% - 11.4% | <u>11.7% - 11.9%</u> |
| Segment Profit                               | ~\$4.6        | <b>\$5.1 - 5.3</b>   |
| ÷ Sales                                      | ~\$33.0       | \$35.0 - 36.0        |
| Segment Profit Margin %                      | 13.6 - 14.0%  | 14.5 - 14.8%         |

# Reconciliation of Free Cash Flow to Cash Provided by Operating Activities and Calculation of Cash Flow Conversion

| (\$B)  | 2003        |            | 2009        |            |
|--|-------------|------------|-------------|------------|
|  | As Reported | As Revised | As Reported | As Revised |
| Cash Provided by Operating Activities          | \$2.2       | \$2.2      | \$3.9       | \$3.9      |
| Expenditures for Property, Plant and Equipment | (0.7)       | (0.7)      | (0.6)       | (0.6)      |
| Free Cash Flow                                 | \$1.5       | \$1.5      | \$3.3       | \$3.3      |
| Free Cash Flow                                 | \$1.5       | \$1.5      | \$3.3       | \$3.3      |
| Net Income Attributable to Honeywell           | \$1.3       | \$1.3      | \$2.2       | \$1.5      |
| Free Cash Flow Conversion %                    | 117%        | 118%       | 155%        | 216%       |

# Reconciliation of Free Cash Flow to Cash Provided by Operating Activities and Calculation of Cash Flow Conversion, excluding Mark-to-Market pension adjustment

| \$B)   | <b>2009</b> | <b>2010E</b> |
|--|-------------|--------------|
| Cash Provided by Operating Activities                    | \$3.9       | ~\$4.1       |
| Expenditures for Property, Plant and Equipment           | (0.6)       | ~(0.6)       |
| Free Cash Flow   | \$3.3       | ~\$3.5       |
| Free Cash Flow<br>÷ Net Income Attributable to Honeywell | \$3.3       | ~\$3.5       |
| excluding mark-to-market pension adjustment              | \$2.0       | ~\$2.3       |
| Free Cash Flow Conversion % (Proforma)                   | 164%        | ~150%        |

# Reconciliation of Free Cash Flow to Cash Provided by Operating Activities and Calculation of Cash Flow Conversion

| B)   | 2011E       |
|--|-------------|
| Cash Provided by Operating Activities                | \$3.3 - 3.5 |
| Expenditures for Property, Plant and Equipment       | ~(0.8)      |
| Free Cash Flow                                       | 2.5 - 2.7   |
| U.S. Pension Contributions                           | ~1.0        |
| Free Cash Flow, excluding U.S. Pension Contributions | \$3.5 - 3.7 |
| Free Cash Flow                                       | 2.5 - 2.7   |
| ÷ Net Income Attributable to Honeywell               | \$2.8 - 3.0 |
| Free Cash Flow Conversion %                          | ~90%        |
| Free Cash Flow, excluding U.S. Pension Contributions | \$3.5 - 3.7 |
| ÷ Net Income Attributable to Honeywell               | \$2.8 - 3.0 |
| Free Cash Flow,                                      |             |
| excluding U.S. Pension Contributions Conversion %    | ~125%       |

#### **Reconciliation of EPS to EPS (proforma)**

|                                     | <b>2003</b> <sup>(1)</sup> | <b>2009</b> (1) |
|-------------------------------------|----------------------------|-----------------|
| EPS, Previously Reported            | \$1.50                     | \$2.85          |
| Effect of Pension Accounting Change | (0.11)                     | (0.80)          |
| EPS, Revised                        | 1.39                       | 2.05            |
| Mark-To-Market Pension Adjustment   | 0.12                       | 0.64            |
| EPS (Proforma)                      | \$1.51                     | \$2.69          |

<sup>(1)</sup> Utilizes weighted average shares outstanding and the effective tax rate for the period.