

Honeywell

First Quarter 2014

Earnings Release

Forward Looking Statements

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.

- **Double-Digit Earnings Growth Despite Mixed Top-Line**

- Sales Of \$9.7B, +1% Organic, +3% Organic ex-D&S
- Segment Margin Of 16.5%, Up 50 bps ex-M&A; EPS Of \$1.28, Up 10%⁽¹⁾ Normalized For Tax
- Free Cash Flow⁽²⁾ Of \$0.5B – Strong Increase Driven By W/C And Lower Cash Pension
- \$0.10 EPS BEAV Share Gain Funding \$0.11 EPS Restructuring And Other Actions

- **Ongoing Seed Planting Driving Performance**

- Strength In Below Peak End Markets – Turbo, BGA OE, Non-Resi
- HGRs Enhancing Organic Growth – China, ME, India Strength
- Evolution Of Key Process Initiatives Delivering Significant Productivity

- **Confident In 2014 Outlook**

- Strong 1Q14 Exit Rates, Organic Growth Accelerates 2Q14 And 2H14
- Continued Margin Expansion Driven By HOS, VPDTM, FT/OEF
- Raising Cash Flow Forecast And Low End FY 2014 EPS⁽³⁾ Guidance

1) EPS, V% Adjusted to Expected Full Year 2014 Tax Rate of 26.5% Before Any Pension Mark-to-Market Adjustment

2) Cash Flow from Operations Less Capital Expenditures

3) Proforma, Excludes Any Pension Mark-to-Market Adjustment

Strong Execution Across Portfolio

1Q 2014 Financial Summary

Honeywell

(\$M except per share amounts)

	<u>1Q13</u>	<u>1Q14</u>	
Sales	\$9,328	\$9,679	• 4% Increase ◆ Up 1% Organic
Segment Profit	\$1,508	\$1,596	• 6% Increase ◆ 30 bps Margin Expansion ◆ 50 bps Margin Expansion Ex-M&A
<i>Margin %</i>	<i>16.2%</i>	<i>16.5%</i>	
Net Income	\$966	\$1,017	• 5% Increase ◆ Up 10% Normalized For Tax**
<i>Attributable to Honeywell</i>			
EPS	\$1.21	\$1.28	• 6% Increase ◆ Up 10% Normalized For Tax**
<i>Tax Rate</i>	<i>23.1%</i>	<i>26.6%</i>	
Free Cash Flow *	\$193	\$496	• 157% Increase ◆ W/C Improvement, Lower Cash Pension

* Cash Flow from Operations Less Capital Expenditures

** V% Adjusted to Expected Full Year 2014 Tax Rate of 26.5% Before Any Pension Mark-to-Market Adjustment

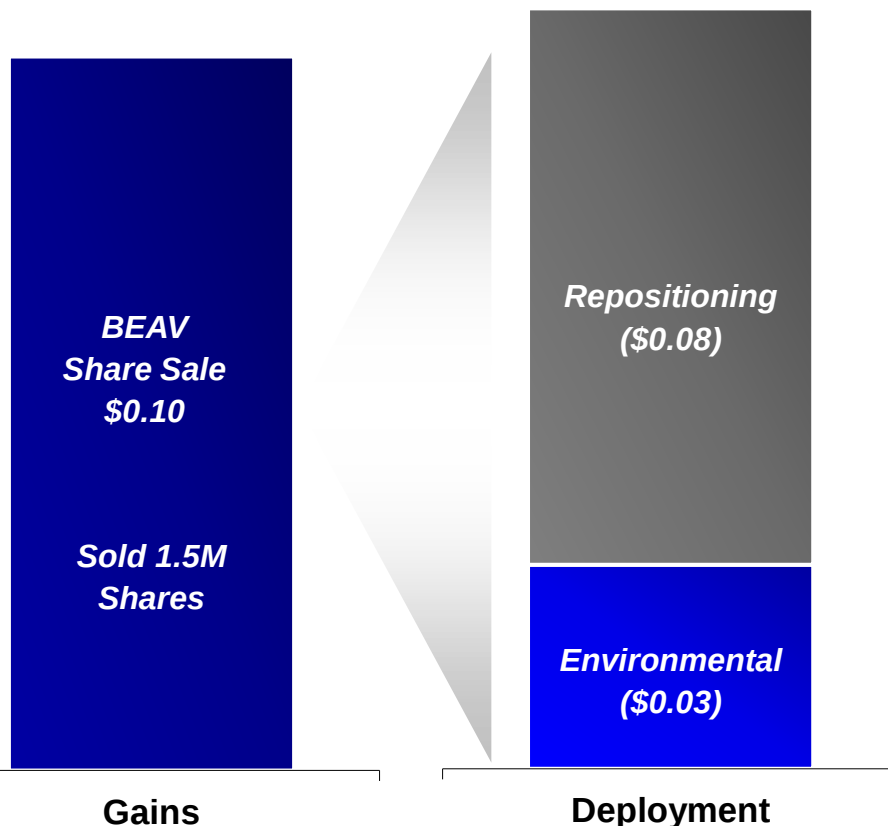
Delivering Above Expectations

1Q14 – One-Time Gains And Deployment

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Continuing To Smartly Deploy Gains

(EPS)



(\$0.01) EPS Funded From Operations

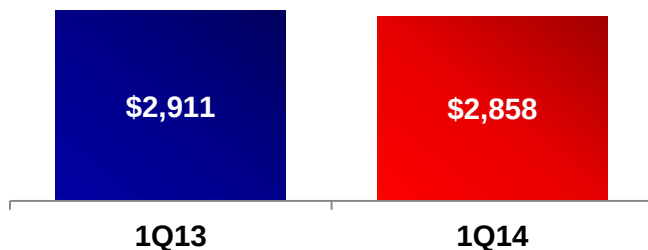
- Footprint Reduction, Business Realignment, Functional Transformation
- 1Q Repo Projects Yield ~\$70M Run-Rate Savings
- Proactive Environmental Remedies Support Next 5 Year Plan
- BEAV 1.9M Shares Remaining

Positions HON Well For Future Earnings Growth

Sales

(\$M)

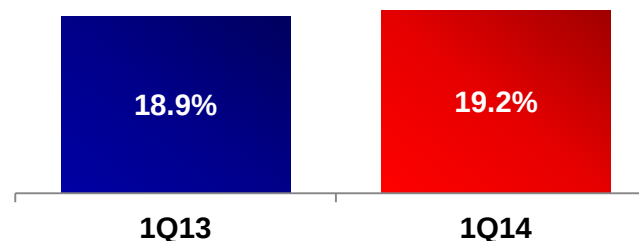
Down (2%)
Up 3% Ex-D&S



- **Commercial OE Up 1%**
 - Strong AT Shipments; Lower Regional Sales
 - Well Positioned On BGA Growth Platforms
- **Commercial AM Up 4%**
 - Spares Strength +14%
 - Lower Engine Events, R&O Timing
- **D&S Down (8%)**
 - Planned Program Ramp Downs And Delays
 - Government Services Decline

Segment Margin

Up 30 bps



- **Segment Profit ~Flat**
- **Segment Margins Up 30 bps**
 - + Commercial Excellence
 - + Productivity Net Of Inflation
 - Volume

Continued Margin Expansion Despite Lower Sales

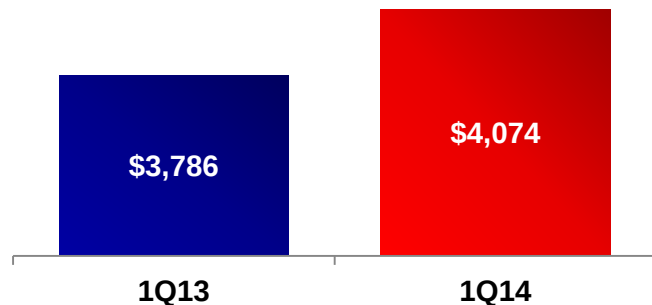
Automation and Control Solutions

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Sales

(\$M)

Up 8%
Organic 2%

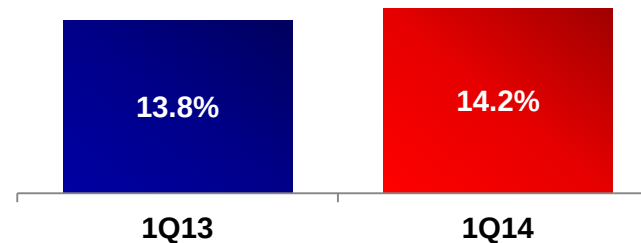


- **ESS Up 15%, Up 2% Organic**
 - Strong Growth In ECC – Weather Benefit
 - HSM Program Ramp Downs
- **HPS Up 1%, Up 3% Organic**
 - Service And Software Solutions Growth
 - Orders And Backlog Growth Continues
- **BSD Down (1%), ~Flat Organic**
 - Building Solutions Orders And Backlog Growth
 - Americas Distribution Growth

Segment Margin

Up 40 bps

Up 70 bps ex-M&A



- **Segment Profit Up 11%**
- **Segment Margins Up 40 bps**
 - + Volume, Commercial Excellence
 - + Productivity Net Of Inflation
 - Acquisitions
 - Growth Investments

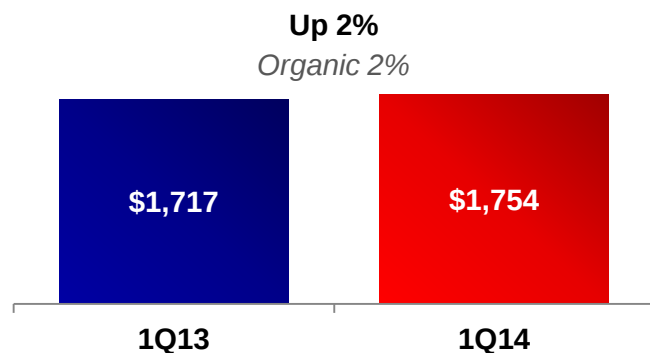
Great Execution, End Markets Stable Growth

Performance Materials and Technologies

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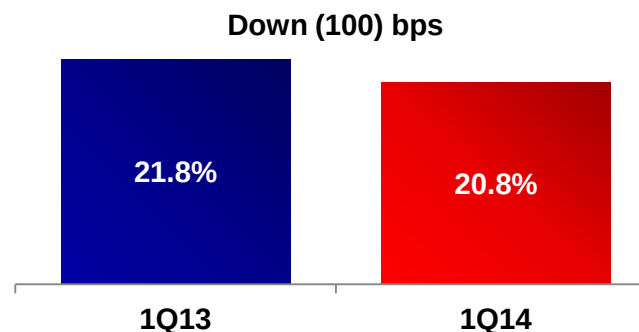
Sales

(\$M)



- **UOP Up 9%**
 - Strong Catalysts, Gas Processing Growth
 - Timing, Capacity Constraints
- **Advanced Materials Down (4%)**
 - Unfavorable Price/Raws, Moderates 2Q / 2H
 - Fluorines And R&C Volume Increases
 - Weather Challenges – FP, R&C

Segment Margin



- **Segment Profit Down (3%)**
- **Segment Margins Down (100) bps**
 - + Productivity Net Of Inflation
 - Parex Catalyst Mix
 - Adv. Mat. Price/Raws, Weather
 - Growth Investments

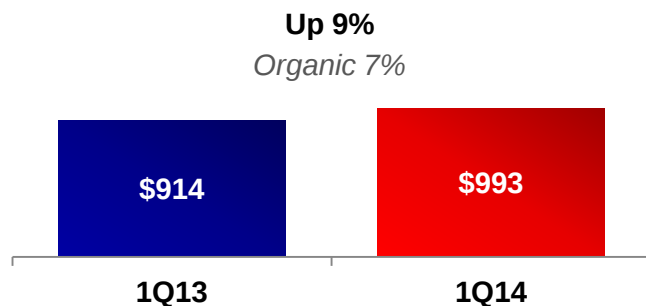
Advanced Materials Orders Trending Up

Transportation Systems

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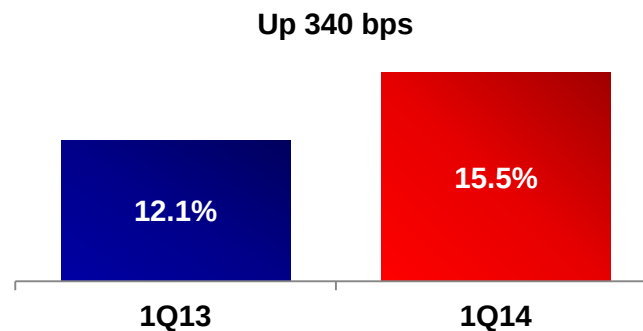
Sales

(\$M)



- **Impressive Win Rate Continues**
 - HON Gas And Diesel Launch Gains
- **Improving Industry Macros**
 - EU LV Production Up ~5% YoY In 1Q
 - Benefits From New EU CV Emissions Regulations
 - Higher U.S. And China Turbo Gas Penetration
- **FM Divestiture Anticipating 2H14 Close**

Segment Margin



- **Segment Profit Up 39%**
- **Segment Margins Up 340 bps**
 - + Productivity
 - + Volume Leverage
 - + Operational Improvements

Outpacing Improving Markets

2Q14 Preview

Honeywell

	<u>Sales Change</u>	<u>Margin Change</u>	<u>Comments</u>
Aerospace	(1) - 1%	~Flat	• Comm'l Growth - Mechanical • D&S Headwinds Moderate
ACS <i>w/o HPS</i>	8 - 10% <i>~3% Organic</i>	Up ~50 bps <i>Up ~100 bps Ex-M&A</i>	• End Markets Steady Growth • Acquisition Integration
PMT <i>w/ HPS</i>	3 - 5%	Up Slightly	• UOP Up Double Digits • HPS Steady Growth • Adv Mat Improvement
Transportation	5 - 7%	Up ~200 bps	• EU LV Prod ~Flat - Slightly Up • New Platform Launches
Honeywell	3 - 5% <i>~3% Organic</i>	Up 20 - 40 bps <i>Up 50 - 70 bps Ex-M&A</i>	• Sales Of \$10.0-\$10.2B

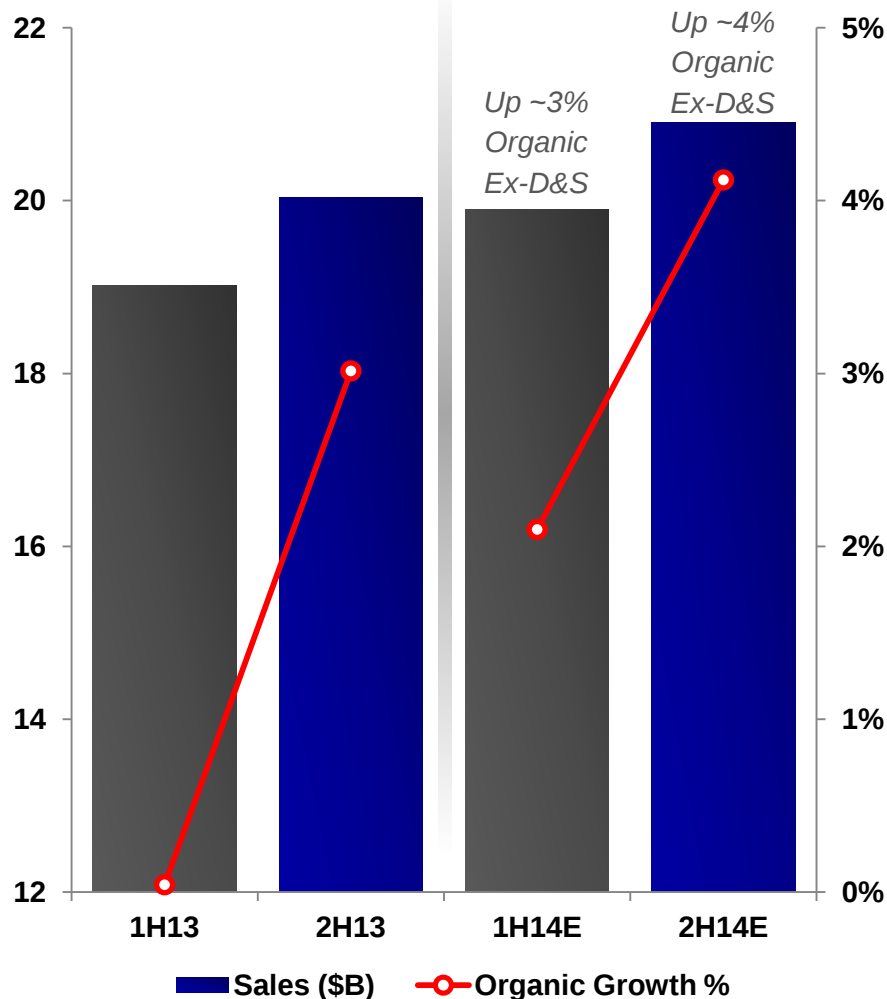
EPS \$1.32 - \$1.36, Up 8 - 11% Normalized For Tax*

Organic Sales Growth

Honeywell

2013

2014E



1H / 2H Drivers

(Mid Pt Of Guidance)

- **Aero: 1H14E (~1%), 2H14E ~2%**
 - Comm'l OE: 2H14 Acceleration
 - Comm'l AM: In-Line With Utilization, RMU Strength
 - D&S: Int'l Growth Partially Offsetting U.S. Declines
- **ACS: 1H14E ~2%, 2H14E ~3%**
 - ESS: HSM Rebound, Resi Strength, Non-Res Pick Up
 - BSD: Orders Growth Supports 2H Pick Up
- **PMT: 1H14E ~3%, 2H14E ~5%**
 - UOP: Robust Backlog, Tougher Comp 4Q
 - HPS: Orders Growth Supports 2H Pick Up
 - Adv Mat: Pricing Headwinds Moderate 2Q / 2H
- **TS: 1H14E ~6%, 2H14E ~4%**
 - HTT: 2H Comps Become Gradually More Difficult
 - FM: Remains In FY Guidance, Expected 2H Close

Modest Acceleration 2H14 Expected

2014 Segment Guidance

Honeywell

Prior Outlook

Current Outlook

(Mid Pt Of Guidance)

Sales

Margin

Sales

Margin

Aero

~\$12.1B

Up ~1%

~20.3%

Up ~50 bps

~\$12.0B

Up ~1%

~20%+

Up 40 bps +

ACS

~\$17.5B

Up ~6%

~15.2%

Up ~50 bps

~\$14.4B

Up ~7%

~15%+

Up 30 bps +

PMT

~\$7.1B

Up ~4%

~18.9%

Up ~10 bps

~\$10.2B

Up ~4%

~18%+

Up 50 bps +

TS

~\$3.8B

Up ~3%

~14.6%

Up ~130 bps

~\$3.9B

Up ~4%

~15%+

Up 170 bps +

HON

~\$40.5B

Up ~4%

~16.8%

Up ~50 bps

~\$40.5B

Up ~4%

~16.8%

Up ~50 bps

w/o HPS

w/ HPS

No Change To Total HON Sales, Margin Outlook

2014 Financial Guidance Summary

Honeywell

(\$B except per share amounts)

	<u>2013</u>	<u>2014E</u> ³	<u>V%</u>	<u>Comments</u>
Sales	\$39.1	\$40.3 - 40.7	3 - 4%	• Organic Up ~3%
Segment Profit	\$6.4	\$6.7 - 6.9	5 - 9%	
Segment Margin	16.3%	16.6 - 16.9%	30 - 60 bps	• Up 50 - 80 bps ex-M&A
Net Income, Proforma ¹	\$4.0	\$4.3 - 4.4	9 - 12%	
Attributable to Honeywell				
EPS, Proforma ¹	\$4.97	\$5.40 - 5.55	9 - 12%	
Free Cash Flow ²	\$3.4	\$3.8 - 4.0	~15%	• Better W/C Performance

1) Proforma, V% Exclude Pension Mark-to-Market Adjustment, Assumes 26.5% ETR In 2014

2) Cash Flow From Operations Less Capital Expenditures; Definition Of Free Cash Flow No Longer Excludes NARCO Trust Establishment Payments, Cash Pension Contributions, And Cash Taxes Relating To The Sale Of Available For Sale Investments

3) Friction Materials Remains In Full Year Guidance Until Close

Planning Assumptions

- **2H14 Organic Sales Growth Expected To Accelerate**
- **Restructuring Benefits Supporting Strong Margin Expansion**
- **F/X Headwind Likely 2H, Planning 2H Euro 1.30**
- **FY EPS Growth Linearity In-Line With Prior Years**

Raising Low End Of EPS Guidance And Cash Flow

- **1Q Results Continue Trend Of Strong Execution**
 - Continued To Set High Expectations And Delivered
 - Better Than Expected Margins, Earnings, And Cash Despite Slow Growth Environment
- **Confident In 2014 Outlook, Raised EPS And Cash Outlook**
 - 1H Organic Sales Growth ~2%, 2H Acceleration To ~4%
 - Executing Sustainable Productivity Actions → Additional Restructuring Benefits
- **Compelling Growth Tailwinds**
 - Favorable Macros, Global Expansion, Innovation Culture
 - Strong Portfolio Aligned To Macro Trends

Continuing To Outperform

Appendix

Reconciliation of non-GAAP Measures to GAAP Measures

Reconciliation Of Segment Profit To Operating Income And Calculation Of Segment Profit And Operating Income Margins

Honeywell

<i>(\$M)</i>	<u>1Q13</u>	<u>1Q14</u>
Aerospace	\$551	\$549
Automation and Control Solutions	523	580
Performance Materials and Technologies	374	364
Transportation Systems	111	154
Corporate	(51)	(51)
Segment Profit	<u>\$1,508</u>	<u>\$1,596</u>
Stock Based Compensation ⁽¹⁾	(54)	(52)
Repositioning and Other ^(1, 2)	(137)	(220)
Pension Ongoing (Expense) Income ⁽¹⁾	21	61
OPEB (Expense) Income ⁽¹⁾	(22)	(12)
Operating Income	<u><u>\$1,316</u></u>	<u><u>\$1,373</u></u>
 Segment Profit	 \$1,508	 \$1,596
÷ Sales	<u>\$9,328</u>	<u>\$9,679</u>
Segment Profit Margin %	<u><u>16.2%</u></u>	<u><u>16.5%</u></u>
 Segment Profit Excluding Mergers and Acquisitions	 \$1,508	 \$1,572
÷ Sales Excluding Mergers and Acquisitions	<u>\$9,326</u>	<u>\$9,434</u>
Segment Profit Margin % Excluding Mergers and Acquisitions	<u><u>16.2%</u></u>	<u><u>16.7%</u></u>
 Operating Income	 \$1,316	 \$1,373
÷ Sales	<u>\$9,328</u>	<u>\$9,679</u>
Operating Income Margin %	<u><u>14.1%</u></u>	<u><u>14.2%</u></u>

(1) Included in cost of products and services sold and selling, general and administrative expenses.

(2) Includes repositioning, asbestos, environmental expenses and equity income adjustment.

Reconciliation Of Segment Profit To Operating Income And Calculation Of Segment Profit And Operating Income Margins

Honeywell

(\$M)	2013
Aerospace	\$2,372
Automation and Control Solutions	2,437
Performance Materials and Technologies	1,271
Transportation Systems	498
Corporate	(227)
Segment Profit	\$6,351
Stock Based Compensation ⁽¹⁾	(170)
Repositioning and Other ^(1, 2)	(699)
Pension Ongoing (Expense) Income ⁽¹⁾	90
Pension Mark-to-Market Adjustment ⁽¹⁾	(51)
OPEB (Expense) Income ⁽¹⁾	(20)
Operating Income	\$5,501
Pension Mark-to-Market Adjustment ⁽¹⁾	(51)
Operating Income Excluding Pension Mark-to-Market Adjustment	\$5,552
Segment Profit	\$6,351
÷ Sales	39,055
Segment Profit Margin %	16.3%
Segment Profit Excluding Mergers and Acquisitions	\$6,351
÷ Sales Excluding Mergers and Acquisitions	\$39,046
Segment Profit Margin % Excluding Mergers and Acquisitions	16.3%
Operating Income	\$5,501
÷ Sales	\$39,055
Operating Income Margin %	14.1%
Operating Income Excluding Pension Mark-to-Market Adjustment	\$5,552
÷ Sales	\$39,055
Operating Income Margin Excluding Pension Mark-to-Market Adjustment	14.2%

⁽¹⁾ Included in cost of products and services sold and selling, general and administrative expenses.

⁽²⁾ Includes repositioning, asbestos, environmental expenses and equity income adjustment.

Reconciliation Of Cash Provided By Operating Activities To Free Cash Flow

Honeywell

(\$M)	1Q13	1Q14	2013
Cash Provided by Operating Activities	\$341	\$688	\$4,335
Expenditures for Property, Plant and Equipment	(148)	(192)	(947)
Free Cash Flow	<u>\$193</u>	<u>\$496</u>	<u>\$3,388</u>

Previously, we defined free cash flow as cash provided by operating activities, less cash expenditures for property, plant and equipment, cash pension contributions, NARCO Trust establishment payments and cash taxes relating to the sale of available for sale investments.

(\$M)	1Q13	2013
Cash Provided by Operating Activities	\$341	\$4,335
Expenditures for Property, Plant and Equipment	(148)	(947)
	<u>\$193</u>	<u>\$3,388</u>
Cash Pension Contributions	134	156
NARCO Trust Establishment Payments	-	164
Cash Taxes Relating to the Sale of Available for Sale Investments	-	100
Free Cash Flow	<u>\$327</u>	<u>\$3,808</u>

Calculation Of EPS At Tax Rate Of 26.5%

Honeywell

(\$M except per share amounts)

	1Q13	2Q13	1Q14
Income Before Taxes	\$1,260	\$1,329	\$1,411
Taxes at 26.5%	334	352	374
Net Income at 26.5% Tax Rate	\$926	\$977	\$1,037
Less: Net Income Attributable to the Noncontrolling Interest	3	1	19
Net Income Attributable to Honeywell at 26.5% Tax Rate	\$923	\$976	\$1,018
Weighted Average Number of Shares Outstanding - Assuming Dilution	797.1	798.1	796.4
EPS at 26.5% Tax Rate	\$1.16	\$1.22	\$1.28

EPS Impact Of Gain On Sale Of Available For Sale Investments

Honeywell

(\$M, except per share amounts)

Gain on Sale of Available for Sale Investments

Taxes at 26.5%

After Tax Gain on Sale of Available for Sale Investments

EPS Impact of Gain on Sale of Available for Sale Investments ⁽¹⁾

1Q14

\$105

28

\$77

\$0.10

(1) Utilizes weighted average shares of 796.4 million.

Reconciliation Of EPS To EPS, Excluding Pension Mark-to-Market Adjustment **Honeywell**

	2013 ⁽¹⁾
EPS	<u>\$4.92</u>
Pension Mark-to-Market Adjustment	<u>0.05</u>
EPS, Excluding Pension Mark-to-Market Adjustment	<u><u>\$4.97</u></u>

(1) Utilizes weighted average shares of 797.3 million. Mark-to-market uses a blended tax rate of 25.5%.

Reconciliation Of Net Income To Net Income, Excluding Pension Mark-to-Market Adjustment

Honeywell

(\$M)	2013 ⁽¹⁾
Net Income Attributable to Honeywell	<u>\$3,924</u>
Pension Mark-to-Market Adjustment, Net of Tax	<u>38</u>
Net Income Attributable to Honeywell Excluding Pension Mark-to-Market Adjustment	<u><u>\$3,962</u></u>

(1) Mark-to-market uses a blended tax rate of 25.5%.

(\$M)	1Q13	1Q14
Defense and Space Sales	\$1,192	\$1,092