Hello,

I hope you are enjoying the post-earnings 'dog days' of summer. In this note we recap the second quarter, outline the key HON investor messages looking ahead to the second half of 2023 as well as 2024, and address some **Frequently Asked Investor Questions** (**FAIQ**) following our 2Q23 results. As always, we welcome your feedback.

All the best,
Sean

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New CEO Outlines Priorities for Next Phase of Growth

In May, Honeywell leadership hosted our **2023 Investor Day** in New York (click here for the presentation materials and webcast replay), in which newly appointed **CEO Vimal Kapur laid out his initial priorities:** 1) driving innovation to accelerate our organic growth, 2) deploying capital to further optimize our portfolio, and 3) enhancing our operational capabilities through the next generation of our Accelerator operating system, all to **deliver a differentiated financial growth algorithm**. While reiterating our targets of 4-7% organic sales growth of and 40-60 bps of segment margin expansion, Vimal established a mix of new and enhanced financial targets, including: >40% gross margins, >35% recurring revenue mix, 25%+ segment profit margin, and mid-teens+ free cash flow margin. **Honeywell's portfolio is levered to the mega trends of automation, sustainability, and the future of aviation, all underpinned by our digitalization initiatives.** See an IR Insights recap of the event here.

Strong 2Q HON Performance

Honeywell posted another solid quarter in 2Q, meeting or exceeding each of our guided metrics, including 6% EPS growth year over year, or 13% excluding a 15-cent non-cash pension headwind. We generated 34% free cash flow growth year over year, managed a book-to-bill of 1x, and exited the quarter with a record backlog of $30.5B, demonstrating the durability of our demand.

Honeywell **raised its full year guided metrics for 2023**. Overall, our portfolio's demand profile remains quite favorable, led by long-cycle Aerospace and Performance Materials and Technologies, and orders among most of our short-cycle businesses are stabilizing. We also announced **three technology-focused acquisitions in 2Q**, more on them later in this note.

In 2Q, Honeywell announced its innovative new eFining technology, **a ready-now solution for producing low-carbon sustainable aviation fuel (SAF)**. Meanwhile, BP selected Honeywell's Ecofining technology to help support the production of SAF at five BP facilities around the world. Honeywell has now **won >40 renewable fuels project awards** to date with a win rate of over 70% in the last two years, demonstrating the technology leadership we've established in this market. Honeywell Connected Enterprise hosted its **Honeywell Connect 2023** event in May, unveiling several new products, including an expansion of our Honeywell Forge Performance+ software. The second quarter saw **Aero's** first flight managed by our Honeywell Anthem flight deck and our **Honeywell Building Technologies** suite of software and hardware offerings contributed to the Sydney Opera House achieving a *6 Star Green Star* rating from the Green Building Council of Australia (GBCA).

Latest Honeywell Outlook for 2H23

We expect **3Q23** revenue of $9.1-9.3B, up 1-4% organically year over year, with segment margins in a range of 22.3% to 22.6% (+50-80 bps in year-over-year margin expansion). Our forecasted tax rate in 3Q of 23% is notably higher than our full year expectation of 21%, resulting in a $0.06 headwind in the quarter (and offset by a commensurate tailwind in 4Q23). All together, we expect adjusted earnings per share of $2.15-2.25 in 3Q.

Our **latest guidance for FY23** is revenue of $36.7-37.3B, up 4-6% organically year over year, coupled with 70-90 bps of segment margin expansion to 22.4-22.6%, and adjusted earnings per share of $9.05-9.25 (representing growth of 10-12% year over year, excluding the ~$0.55/share impact of non-cash pension headwinds). We also continue to expect to generate $5.1-5.5B in free cash flow excluding the one-time settlements in 1Q23, +4-12% year over year.

Early Read on 2024: Bright Outlook Ahead for Honeywell

As our management team noted on our second quarter's earnings call, **Honeywell is positioned for healthy growth again in 2024**, and **we expect all four of our segments to contribute** to that growth. Given the strong backlog build we've experienced in Aerospace and PMT, we have strong line of sight to durable revenue growth for both segments. Meanwhile, our short cycle businesses are stabilizing and poised for reacceleration in the coming quarters.

Our **Aerospace** segment has **generated strong revenue growth** (+15% organically in 1H23) as its supply chain unlocks, **and demand remains strong**, evidenced by our Aerospace orders up 13% in 1H23 and backlog growth of 21% year over year. Flight hours remain strong, particularly widebody (which offer 3x the revenue potential v. narrow). Honeywell's platform exposures are diverse and optimized, particularly in business aviation. We believe aerospace is in the **early innings of a multi-year, secular demand cycle** for both commercial and defense end markets, and when coupled with Aero's >$7B of wins in advanced aerial mobility (UAV/UAM), we see unprecedented visibility for growth through the balance of the decade.

Performance and Materials Technologies is also levered to **secular growth drivers**, including **industrial automation and emerging energy verticals** (e.g., green fuels, carbon capture, hydrogen) with substantial government support of customer activities, which should lead to accelerating demand and revenue growth into the middle part of the decade. Honeywell **upgraded our 2023 organic sales growth expectations for PMT to high single-digit** (from mid-single digit), supported by strong double-digit orders growth in 2022. Our sustainable technology solutions unit continues to experience robust demand growth, including triple-digit orders growth in 2Q23.

Building Technologies is expected to grow organically in the low single-digit range in 2023, but this follows 14% organic growth in 2022, leading to a high single-digit CAGR over the two-year period. With demand signals for our products business holding firm (2Q book-to-bill was ~1x) and the supply chain improving each quarter, we expect HBT to continue its growth in 2024. **The macros for HBT remain strong with enhanced customer focus on energy savings** to meet sustainability goals. For example, HBT's long cycle solutions business pipeline has grown ~10% year to date to ~$8B, giving us high confidence in our long-term targeted range of mid / high single-digit revenue growth.

The rebasing of demand in our long cycle warehouse automation business, coupled with short cycle demand trends in other parts of our **Safety and Productivity Solutions** segment in the last 2-3 quarters, has moderated Honeywell's overall reported organic growth. In the second quarter, SPS reduced our organic growth by ~600 bps. Excluding SPS, the balance of HON grew high single-digits organically. While our 3Q23 guidance embeds a similar impact to our organic growth rate year over year, the delta should shrink modestly in 4Q23, and dissipate in 2024, revealing stronger organic growth for Honeywell. Following the four-year pandemic-induced "bullwhip" cycle in warehouse, the business has still generated a double-digit CAGR since we acquired Intelligrated in 2016. Looking ahead, we see evidence of demand slowly coming back; project pipeline has grown by >50% YTD to ~$5B.

How does Honeywell plan to balance organic sales growth with further margin expansion?
Honeywell's long-proven **strategy of focusing on profitable growth continues**. We believe growth does not need to come at the expense of margin expansion, and we strive to deliver both to maximize segment profit growth and ultimately value creation for our shareholders (segment profit grew 10% in 1H23 on ~5% organic sales growth). **Our long-term growth algorithm reflects this balance**, targeting 4-7% top line organic growth coupled with 40-60 bps of margin expansion per year. To support this organic growth, we continue to fund our R&D program at a healthy HSD percent of sales (combining both company- and customer-funded R&D). In 1H23, total R&D spend amounted to $1.4B, or ~8% of revenue.

At our Investor Day in May, Vimal outlined our plan to **accelerate our organic sales growth** by enhancing our innovation playbook. This includes both expanding our SAM by taking our existing offerings to new markets (e.g., EV sensors, Solstice® for heat pumps, and more) as well as delivering new solutions in our existing markets (such as HCE, electrification in Aero, etc.).

In addition, we will continue to fund and incubate our **Breakthrough Initiatives that are long-term technology bets** (including Quantinuum and Advanced Aerial Mobility) and offer incremental upside to our growth targets.

High Growth Regions (HGRs) remain a source of differentiated growth for Honeywell. HGRs generate nearly 25% of total HON revenue, and we expect these regions (e.g., India, Middle East, China, ASEAN countries, Eastern Europe, Latin America) to sustain double-digit top line growth in the coming years.

As Vimal demonstrated at Investor Day, **the next evolution of Accelerator, Honeywell's operating system, will be another source of revenue growth opportunities**. Deploying Global Design Models (GDMs) across our four major business types (products, services, projects, and software), creates the potential for value capture by greater adoption of best practices and business frameworks. We've already seen significant productivity opportunities for GDMs to drive incremental sales, enhance margin expansion, and improve cash flow.

Given the priority of M&A for capital deployment at Investor Day in May, how should investors interpret the company's recent acquisitions in that process?

During the second quarter, we announced three acquisitions, closing on our ~$700M Compressor Control Corporation (CCC) acquisition and adding two strategic assets that will drive enhanced innovation and strengthen our technology portfolio. We acquired SCADAfence, an Israel-based company that delivers operational technology or OT and Internet of Things or IoT cybersecurity solutions for monitoring large-scale networks. In addition, we signed an agreement with Saab to acquire its heads-up-display or HUD assets, bolstering Honeywell's comprehensive end-to-end avionics and safety offerings. Importantly, the HUDs will be integrated into Honeywell Anthem, our revolutionary integrated flight deck. In terms of technology and alignment to megatrends, this mix represents the types of deals that we look to generate on a consistent basis.

We remain bullish on our pipeline of potential bolt-on acquisitions in the $1-7B deal size range. We are seeking targets that offer a combination of above industry growth rates, high gross margins, less cyclicality, and technological differentiation that will enhance the Honeywell portfolio.

With the transformational efforts completed during Executive Chairman Darius Adamczyk's time as CEO and a more favorable competitive landscape for deals in a higher interest rate environment, **Honeywell expects to be more active in M&A markets** in the next few years. The evolution of the Accelerator operating system and investments in Honeywell Digital raise the probability of successful integrations, while our strong balance sheet puts us in an advantaged position in competing for deals.

How is Quantinuum progressing in technology and commercial adoption? What are HON's latest thoughts on the path to monetization and deconsolidation?

Quantinuum continues to make big strides in both technological progression and, increasingly, signs of commercial traction. Last week, BMW and Airbus announced a multi-year collaboration with Quantinuum to incorporate quantum computers into a workflow process to solve some of the industry's most important problems in new energy verticals, including hydrogen fuel and fuel cells. In May, Quantinuum released its next-generation H2 quantum computer, which will allow for even greater computational power and lead the world in advancement of quantum computing technology.

Quantum computing has the potential to accelerate major advancements in **natural language processing and artificial intelligence** (as evidenced by the recent rise in valuations of public quantum companies), and we believe **Quantinuum will play a crucial role** in this rapidly developing technology. **We remain highly confident that Quantinuum has the potential to become a multi-billion-dollar business**, and our plan remains to monetize our equity position over time, with the timing largely dependent on market valuations and the goal of maximizing long-term HON shareowner value.

Is Honeywell actively looking to leverage generative AI into its business and/or operations?

Yes, **Honeywell is actively working to deploy AI into its operations**. We see **productivity benefits starting in 2024** in both product development and customer service utilizing generative AI tools. We are actively working to deploy these tools across our enterprise with pilots at various stages of completion.

Beyond internal benefits, we remain **excited about the growth opportunities that AI can provide** for us. Our select new product development programs are researching ways to embed AI as part of our offerings to enable superior outcomes for our customers, enabling differentiated growth potential. We will continue to update investors as these efforts mature.

About Honeywell

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Forward Looking Statements

We describe many of the trends and other factors that drive our business and future results in this publication. Such discussions contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are those that address activities, events, or developments that management intends, expects, projects, believes or anticipates will or may occur in the future. They 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 significantly from those envisaged by our forward-looking statements. We do not undertake to update or revise any of our forward-looking statements, except as required by applicable securities law. Our forward-looking statements are also subject to material risks and uncertainties that can affect our performance in both the near- and long-term. In addition, no assurance can be given that any plan, initiative, projection, goal, commitment, expectation, or prospect set forth in this publication can or will be achieved. These forward-looking statements should be considered in light of the information included in this publication, our Form 10-K and other filings with the Securities and Exchange Commission. Any forward-looking plans described herein are not final and may be modified or abandoned at any time.

Non-GAAP Measures

This publication contains financial measures presented on a non-GAAP basis. Follow this link for reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures. Honeywell's non-GAAP financial measures used in this publication are as follows:

- *Segment profit and segment profit margin, on an overall Honeywell basis, measures by which we assess operating performance. We define segment profit, on an overall Honeywell basis, as operating income adjusted for certain items. We define segment profit margin, on an overall Honeywell basis, as segment profit divided by net sales. We believe these measures are useful to investors and management in understanding our ongoing operating and in analysis on ongoing operating trends. A quantitative reconciliation of segment profit, on an overall Honeywell basis, to operating income has not been provided for all forward-looking measures of segment profit and segment margin included herein. Management cannot reliably predict or estimate, without unreasonable effort, the impact and timing on future operating results arising from items excluded from segment profit. The information that is unavailable to provide a quantitative reconciliation could have a significant impact on our reported financial results. To the extent quantitative information becomes available without unreasonable effort in the future, and closer to the period to which the forward-looking measures pertain, a reconciliation of segment profit to operating income will be included within future filings.*
- *Organic sales growth, which we define as net sales growth less the impacts from foreign currency translation, and acquisitions and divestitures for the first 12 months following transaction date. We believe this measure is useful to investors and management in understanding our ongoing operations and in analysis of ongoing operating trends. A quantitative reconciliation of reported sales percent change to organic sales percent change has not been provided for forward-looking measures of organic sales percent change because management cannot reliably predict or estimate, without unreasonable effort, the fluctuations in global currency markets that impact foreign currency translation, nor is it reasonable for management to predict the timing, occurrence and impact of acquisition and divestiture transactions, all of which could significantly impact our reported sales percent change.*
- *Adjusted earnings per share (EPS) and adjusted EPS excluding pension headwind. We define adjusted EPS as diluted EPS adjusted to exclude various charges as defined in the reconciliation. We define adjusted EPS excluding pension headwind as adjusted EPS adjusted for an actual or forecasted decline of pension ongoing income between the comparative periods in 2022 and 2023. We believe these measures are useful to investors and management in*

understanding our ongoing operations and in analysis of ongoing operating trends. For forward-looking information, management cannot reliably predict or estimate, without unreasonable effort, the pension mark-to-market expense as it is dependent on macroeconomic factors, such as interest rates and the return generated on invested pension plan assets. We therefore do not include an estimate for the pension mark-to-market expense. Based on economic and industry conditions, future developments, and other relevant factors, these assumptions are subject to change.

- *Free cash flow and free cash flow excluding impact of settlements. We define free cash flow as cash provided by operating activities less cash expenditures plus anticipated cash receipts from Garrett. We define free cash flow excluding impact of settlements as free cash flow less settlements related to the NARCO Buyout, HWI Sale, and UOP Matters. We believe these measures useful to investors and management as a measure of cash generated by operations that will be used to repay scheduled debt maturities and can be used to invest in future growth through new business development activities or acquisitions, pay dividends, repurchase stock, or repay debt obligations prior to their maturities. These measures can also be used to evaluate our ability to generate cash flow from operations and the impact that this cash flow has on our liquidity.*