Honeywell

Honeywell and Garrett Motion Inc.
Investor Fact Sheet

The Indemnification and Reimbursement Agreement and Tax Matters Agreement Are Reasonable and Enforceable

- Honeywell spun off its former Transportation Systems business into a new company called Garrett Motion Inc. in 2018. The spin fully complied with applicable law.
- Honeywell's former Transportation Systems business historically manufactured and sold Bendix automotive brake pads, among other products. This is where Honeywell's Bendix-related asbestos liabilities originated.
- Garrett received all its assets and its status as an independent, publicly-listed company in exchange for, among other things, entering into the Indemnification and Reimbursement Agreement with Honeywell under which Honeywell would be reimbursed for its annual cash obligations under those asbestos liabilities, as well as a Tax Matters Agreement which, among other things, allocated to Garrett its share of mandatory transition tax.
- The terms of the spin—including the assets and operations Garrett received and the Indemnification and Reimbursement Agreement and Tax Matters Agreement—were structured to enable Garrett to generate sufficient cash flow to fund operations and make the required payments under its debt agreements and its agreements with Honeywell, even in the face of an economic downturn. Payments under the Indemnification and Reimbursement Agreement are subject to an annual cap, and the Agreement allows Garrett to defer its payments thereunder in times of financial stress. Taken together, the assets and liabilities Garrett received in the spin-off allow it to operate in the marketplace as a standalone company.
- Garrett's CEO and other Garrett executives understood and were responsible for communicating the spin structure, financial projections and the new spin company's obligations, including the reimbursement obligations associated with the asbestos-related liabilities, to investors, banks, ratings agencies, analysts, and the media in advance of the spinoff.
- The spin structure and obligations were disclosed in advance of the spin to those who would serve on the Garrett board following the spin.
- In short, Garrett's leadership understood the company's obligations and communicated to investors and other key constituencies a comfort with these obligations and the ability to create value as a standalone company. Garrett was spun out on this basis.

Garrett Has Fought Against These Agreements Despite These Common Understandings

- Throughout 2019, Garrett operated its business and met its obligations to Honeywell under the Indemnification and Reimbursement Agreement and the Tax Matters Agreement, subject to a reservation of rights, while also generating excess free cash flow and profits for its equity holders.
- However, in late 2019, Garrett filed a meritless lawsuit to attempt to challenge its payment obligations under the Indemnification and Reimbursement Agreement, and in July 2020, Garrett provided notice that it disputes its obligations under the Tax Matters Agreement. Garrett has since indicated that it intends to challenge those obligations under the Tax Matters Agreement through litigation.
- When COVID-19 hit and Garrett saw a short-term downturn in its business, Garrett opportunistically sought, in effect, to defer indefinitely Honeywell's claims in connection with amending its credit agreement with its lenders. Honeywell objected to that arrangement and instead, in June 2020, Honeywell worked

cooperatively with and supported Garrett and its lenders in amending its credit agreement to provide Garrett with significant covenant and payment relief over the next two years so as to address these developments.

- Honeywell remains confident that Garrett's obligations to Honeywell are reasonable and the agreements at issue are fully enforceable.

Garrett's Bankruptcy Filing Is the Latest Attempt to Evade Its Obligations, and Honeywell Will Actively Defend Its Interests

- On September 20, 2020, Garrett began bankruptcy proceedings as part of a continuing, imprudent strategy to evade its obligations to Honeywell.
- Garrett decided to file for bankruptcy despite the significant payment and covenant relief Honeywell provided in June 2020 (which relief period could last through June 2022 if certain conditions exist), and even though the worst of the economic downturn may already be behind the company. In fact, in its second-quarter earnings release issued on July 30, 2020, Garrett explained that it had "safely resumed operations with plants in China producing at pre-crisis levels." Garrett reported to the bankruptcy court that it currently has $280 million in cash on hand, and confirmed in its recent press release that the "fundamentals of [its] business are strong." Garrett's bankruptcy counsel also explained to the bankruptcy court on the day after its bankruptcy filing "this is a fundamentally healthy business from an operating level" and that "it has liquidity."
- Despite being vested with a fiduciary duty to maximize value for all stakeholders, the circumstances surrounding Garrett's bankruptcy filing suggest that Garrett does not share these objectives and, in fact, has worked to limit distributable value in a way that is incompatible with the goals of the bankruptcy process. As part of the bankruptcy filing, Garrett agreed to a stalking-horse bid for a sale of the assets of the company for a value of $2.1 billion. Garrett does not appear to have brought all potential bidders to the table and instead has settled for a bid that satisfies all creditors except Honeywell, while wiping out all value for Garrett's equity holders. This raises serious concerns over whether Garrett is actually focused on maximizing all stakeholder recoveries or solely focused on eliminating its legal, valid and binding obligations to Honeywell.
- Honeywell is committed to engaging in a dialogue with Garrett and working constructively with all parties to mitigate Garrett's self-inflicted damage and maximize value for all stakeholders.
- At the same time, Honeywell will vigorously defend its legitimate, reasonable claims under the Indemnification and Reimbursement Agreement and the Tax Matters Agreement.

Q&A

How is the Indemnification and Reimbursement Agreement structured?

Upon completion of the spin-off, Garrett entered into an agreement with Honeywell under which it is responsible for paying 90% of the annual payments for certain liabilities, primarily related to Honeywell's Bendix asbestos liabilities and associated expenses, less 90% of associated insurance and other recoveries. The agreement continues through December 31, 2048 or until payments are below ~€21 million (or $25 million as determined at the time of the spin) for three consecutive years, whichever comes first. Honeywell's former Transportation Systems business manufactured and sold Bendix automotive brake pads, among other products. The Transportation Systems business unit is where Honeywell's Bendix-related asbestos liabilities originated.

The agreement was structured and sized to account for Garrett having sufficient free cash flow post-payment to Honeywell to invest in future growth, meet obligations to its debt holders, and deliver value to its equity holders. Importantly, payments under the agreement are capped at ~€150 million (or $175 million as determined at the time of the spin) in respect of any year to ensure annual payments are manageable. To date, payments have been well below the cap. The agreement also includes a deferral mechanism which automatically defers payment to the extent that a payment would cause Garrett to be out of compliance with its financial covenants in place at the time of spin, enabling a sustainable capital structure and prudent liquidity management.

How is the Tax Matters Agreement structured?

The Tax Matters Agreement entered into in connection with the spin-off generally provides that Garrett is responsible and indemnifies Honeywell for all ordinary operating taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to Garrett for all periods, including periods prior to the spin-off, to the extent not paid prior to the spin date. In addition, among other items, as a result of the mandatory transition tax imposed by the Tax Cuts and Jobs Act, Garrett is required to make payments to Honeywell in the amount representing the net tax liability of Honeywell under the mandatory transition tax attributable to Garrett. This amount is payable in eight annual installments through April 1, 2025 (8% of net tax liability in each of years 1-5, 15% in year 6, 20% in year 7, and 25% in year 8), and is appropriately associated with the business that was transferred to Garrett as part of the spin-off transaction.

What is the book value of Garrett's liability to Honeywell under the Indemnification and Reimbursement Agreement?

The book value of Garrett's balance sheet liability to Honeywell related to the Indemnification and Reimbursement Agreement was $1.1 billion as of June 30, 2020, or ~1% of our market cap as of September 25, 2020. In addition, Garrett owes Honeywell lesser amounts under various agreements, such as the Tax Matters Agreement. During 2019, Garrett paid Honeywell $152 million under the Indemnification and Reimbursement Agreement, well below the annual cap and representing ~2% of our 2019 adjusted free cash flow.* Garrett made a $36 million payment to Honeywell during 1Q 2020, but has been deferring payments under the Indemnification and Reimbursement Agreement since 2Q 2020 pursuant to an agreement with Honeywell. We are not currently receiving cash payments from Garrett under either the Indemnification and Reimbursement Agreement (pursuant to the further significant payment and covenant relief Honeywell provided to Garrett in June 2020) or under the Tax Matters Agreement.

*See Table 1 for a definition of and reconciliation of this non-GAAP financial measure.

How do the indemnity payments impact Honeywell's income statement and balance sheet?

The benefits to Honeywell under the Indemnification and Reimbursement Agreement are primarily cash in nature. Income statement impacts have been minimal. During 2019, the impact from the agreement was ~$0.02 of earnings per share ("EPS"), representing less than ~1% of 2019 EPS.

Honeywell has recorded a receivable on its balance sheet of $1.1 billion, representing the undiscounted value of remaining claims reimbursable under the 30-year Indemnification and Reimbursement Agreement. In the event any portion of the receivable is deemed to be unrecoverable, Honeywell would adjust its receivable for balance sheet purposes to the amount that is recoverable (with any potential adjustments recorded as a non-cash charge to the income statement).

What happens next?

Garrett's bankruptcy process will proceed in court, and Honeywell will be an active participant to protect its interests and maximize value for the benefit of all Garrett stakeholders.

Honeywell

References

Honeywell's initial court response to Garrett's bankruptcy filing
http://www.kccllc.net/garrettmotion/document/2012212200921000000000004

Indemnification and Reimbursement Agreement
https://www.sec.gov/Archives/edgar/data/773840/000119312518274274/d623916dex21.htm

Amendment to Indemnification and Reimbursement Agreement
https://www.sec.gov/Archives/edgar/data/1735707/000119312520167237/d937093dex102.htm

Honeywell Second-Quarter 2020 10-Q
Discussion about the amendment to the Indemnification and Reimbursement Agreement appears on page 31
https://investor.honeywell.com/Cache/IRCache/a8bfb238-b3e5-3b9a-44e3-eb4da91e000a.pdf

Honeywell's 2019 10-K
http://investor.honeywell.com/file//Index?KeyFile=402807383&Output=3&OSID=9

Appendix

TABLE 1: CALCULATION OF ADJUSTED FREE CASH FLOW

($M)	2019
Cash provided by operating activities	$6,897
Expenditures for property, plant and equipment	(839)
Free cash flow	6,058
Separation cost payments	213
Adjusted free cash flow	$6,271

We define free cash flow as cash provided by operating activities less cash expenditures for property, plant and equipment.

Honeywell (www.honeywell.com) is a Fortune 100 technology company that delivers industry specific solutions that include aerospace products and services; control technologies for buildings and industry; and performance materials globally. Our technologies help everything from aircraft, buildings, manufacturing plants, supply chains, and workers become more connected to make our world smarter, safer, and more sustainable. For more news and information on Honeywell, please visit www.honeywell.com/newsroom.

This document contains certain statements that may be deemed "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current economic and industry conditions, expected future developments and other factors they believe to be appropriate. The forward-looking statements included in this document are also subject to a number of material risks and uncertainties, including but not limited to developments related to Garrett's bankruptcy proceedings as it may affect amounts owed to Honeywell, and economic, competitive, governmental, technological, and COVID-19 public health factors affecting our operations, markets, products, services and prices. Such forward-looking statements are not guarantees of future performance, and actual results, and other developments, including the potential impact of the COVID-19 pandemic, and business decisions may differ from those envisaged by such forward-looking statements. Any forward-looking plans described herein are not final and may be modified or abandoned at any time.

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.

In this document, Honeywell uses a non-GAAP financial measure, adjusted free cash flow, which we define as cash flow from operations less capital expenditures and which we adjust to exclude the impact of separation cost related to the spin-offs of Resideo Technologies Inc. and Garrett. Management believes that, when considered together with reported amounts, this measure is useful to investors and management in understanding our ongoing operations and in the analysis of ongoing operating trends. These metrics should be considered in addition to, and not as replacements for, the most comparable GAAP measure. Refer to Table 1 above for reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure.