Company Name: Honeywell
Company Ticker: HON US
Date: 2017-01-27
Event Description: Q4 2016 Earnings Call

Market Cap: 89,930.72
Current PX: 118.00
YTD Change($): +2.15
YTD Change(%): +1.856

Bloomberg Estimates - EPS
Current Quarter: 1.621
Current Year: 7.046
Bloomberg Estimates - Sales
Current Quarter: 9338.462
Current Year: 39297.400

Q4 2016 Earnings Call

Company Participants

- Mark Macaluso
- David M. Cote
- Thomas A. Szlosek
- Darius Adamczyk

Other Participants

- Scott R. Davis
- Charles Stephen Tusa
- Steven Eric Winoker
- Jeffrey Todd Sprague
- Howard Alan Rubel
- Joe Ritchie
- Nigel Coe
- Andrew Kaplowitz
- John G. Inch
- Andrew Burris Obin

MANAGEMENT DISCUSSION SECTION

Mark Macaluso

Non-GAAP Financial Measures

This call and webcast, including any non-GAAP reconciliations are available on our website at www.honeywell.com/investor

David M. Cote

Business Highlights

EPS

- While we finish 2016 with a strong fourth quarter, delivering EPS of $1.74 and that's up 14% y-over-y
- The quality of earnings was strong, driven by double-digit growth in our UOP and Solstice portfolios within Performance Materials and Technologies as well as continued strength in Transportation Systems and the Home and Building Technologies Distribution business
- We also funded more than $30mm in new restructuring projects and absorbed more than $115mm in Aerospace OEM incentives

Segment Margin and FCF

- We finished the year by exceeding the segment margin and FCF estimates that we provided you in December
- Segment margins for Q4 expanded by 90BPS, excluding M&A, mostly due to productivity and benefits from significant restructuring actions we executed throughout the year
- FCF for the quarter was $1.7B with 126% conversion, driven by improved working capital
- For the full year, earnings of $6.60 increased 8% y-over-y
- Operationally, our segment margins improved by 80BPS for the year

Portfolio Actions

- In 2016 we also completed several significant portfolio actions that'll deliver attractive future returns for our share owners
- The spinoff of our Resins and Chemicals business not only reduced the cyclicality and improved the margin profile of our Performance Materials and Technologies business but it also created nearly $800mm in shareowner value
- And at today's advancing stock price, that value is $1.1B
- We sold our Aerospace government services business and reinvested $175mm of the proceeds into earnings enhancing restructuring projects
- We split the former Automation and Control Solutions business into two new more nimble reporting segments that will deliver better growth, speed and productivity

Restructuring Projects

- In 2016 we also funded more than $250mm in restructuring projects that'll provide a significant tailwind this year and beyond
- We also deployed more than $2B for share repurchases, funded high-return capital projects through $1.1B of CapEx and refinanced our debt, reducing our expected 2017 interest expense by about 8% while increasing our aggregate borrowings by $4B.

CEO and Segment Leadership Succession Plan

- Lastly, we successfully implemented a comprehensive CEO and segment leadership succession plan
- Darius has hit the ground running and has worked extensively with our businesses on their 2017 operations and strategic plans

Guidance

As Darius and Tom shared during our outlook call in December, we remain optimistic about 2017 and we are reaffirming our 2017 guidance of 6% to 10% earnings growth ex-divestitures and organic sales growth of 1% to 3%

EPS and Backlog

- For Q1, we are initiating EPS guidance of $1.60 to $1.64, which is a 6% to 9% increase y-over-y ex-divestitures

- I'd like to share some of our recent highlights on this next slide, which includes some great wins and progress in our connected initiatives
- Our long-cycle backlog is improving in a number of our businesses, including a double-digit improvement in Building Solutions, driven by projects growth; a mid-single digit increase in Defense and Space, driven by U.S. Defense; and a mid-single digit improvement in UOP, driven by increased equipment demand
- We're seeing continued strength in Intelligrated, with backlog up more than 40%, and in Transportation Systems, where our win rate for 2016 was more than 50%

Orders and Contract

- Also, the pipeline of orders for Solstice remains above $3B
- Significant wins in Q4 include a large utility energy service contract to modernize the Tinker Air Force Base in Oklahoma City
- The upgraded water and HVAC systems, energy-efficient lighting and other advances will significantly reduce their carbon footprint, while saving the Air Force more than $3.5mm a year

UOP

Unicracking Technology

- UOP booked two additional licensing agreements in China
- We licensed our Unicracking technology for the production of diesel and naphtha to meet growing Chinese demand for transportation fuels
- And we licensed our methanol-to-olefins technology, which enables the conversion of domestic coal resources to ethylene and propylene, the essential ingredients for making plastics
  - This is UOP's ninth MTO license in China
- UOP continues to win in China because of our local expertise, local manufacturing capabilities and our 80-year history of helping the Chinese petroleum industry solve its toughest challenges

Modular XCeed Bioreactor Technology

- Also in UOP, we announced that our modular XCeed bioreactor technology is helping a fresh-cut fruit and vegetable company in the U.S. to treat wastewater
- The unit treats roughly 150,000 gallons a day to meet local standards
- Wastewater regulations are getting increasingly strict, and we have unique technology to help our customers meet these requirements more efficiently and cost-effectively with simple modular equipment for fast installation and low maintenance
  - This is our first XCeed facility for the food and beverage industry, and growth in segments outside of oil and gas will help reduce the cyclicality of UOP in the future

Home and Building Technologies

- In Home and Building Technologies, we finalized $250mm advanced meter project with Entergy to help improve electricity service and reliability for utility customers across Arkansas, Louisiana, Mississippi and Texas
- And our HBT business continues to make advances in high-growth regions, providing connected security solutions like a new municipal surveillance system, and our new line of INNCOM Elements guestroom controls for hospitality customers
- We're also making significant progress on our connected initiatives, which are powered by the Honeywell Sentience platform

Connected Aircraft

- Within connected aircraft, our equipment is available for use on all Airbus platforms, and system integrations are in process on the Boeing 737 MAX, 787 and 777X.
- In the business jet market Bombardier and Gulfstream will be offering JetWave on selected models of new aircraft and we are certifying the system for aftermarket upgrades on over 30 models
- We are nearing a milestone of 500 JetWave deliveries and we continue to receive significant orders
  - It will be a big part of our growth story in 2017 and beyond
- We have JetWave on our planes and it is awesome
- While I was live streaming a TV show on my iPad, I got a phone call on my iPad, answered it, had no noticeable latency, completed the call and returned to the show
  - It is awesome, really simply awesome

Connected Homes

- For connected homes, we made some exciting announcements at this year's Consumer Electronics Show
- We introduced new Lyric do-it-yourself security cameras, which let homeowners monitor motion and sound while away from their homes

Lyric Home Security and Control System

- We also announced the compatibility of the Lyric Home Security and Control System with Apple HomeKit, giving homeowners control of their security system through Siri or the Apple Home app
- The ever-expanding suite of Lyric connected products now includes cameras, a water leak and freeze detector, thermostats and security products to keep home safe and comfortable

Connected Plant

New INspire Partnerships

- Within connected plant, we announced new INspire partnerships in Honeywell Process Solutions with Dover Automation and Aereon
- It will help manufacturers leverage the Industrial Internet-of-Things to improve the safety, efficiency and reliability of operations across a single plant or several plants across an enterprise

- We currently have four partners as part of the INspire program, which fosters collaboration between customers, equipment vendors, process licensors, consultants and Honeywell experts, and we expect that number to grow considerably throughout the year

Cloud-Based Services

- We also continue to gain traction for our family of cloud-based services for the oil and gas industry, that anticipates operational complications, offering real-time solutions to overcome them
- In the last few months we've announced agreements to help PetroVietnam produce more gasoline and consume less energy, and to help Delek Refining avoid down time and improve its operations

Collaboration with Intel

- Lastly a few weeks ago we announced a collaboration with Intel to develop IoT solutions for the retail industry
- Honeywell and Intel will jointly develop solutions that utilize the two companies' technology offerings, including our sensors, handheld computers, processors, barcode scanners, RFID tags and readers and cloud-based software
    - These solutions will help retailers and supply chain firms gain greater visibility into in-store inventory, enhance customer service and ensure items ordered online are available for in-store pickup
    - A number of these technologies will be on display at our Annual Investor Conference, which will take place on March 1 at the Plaza in New York City

Thomas A. Szlosek

Financial Highlights

EPS

- I'm slide four
- EPS of $1.74 for the quarter increased 14% from 2015, as Dave indicated
- Now this excludes the charges for debt refinancing and pension mark-to-market we talked about in our guidance
- And it also from 2015 excludes the divestitures that we did in 2016
- To reemphasize Dave's point, the double-digit increase was achieved even while absorbing the impact of $48mm in incremental y-over-y OEM incentives
- Q4 reported EPS were $1.34
- The lower amount reflects that $0.12 for that debt refinancing and as well as the pension mark-to-market of approximately $0.28 per share, driven by lower discount rates in UK, Germany and the U.S.
- The 2015 pension mark-to-market charge was about $0.05 per share

Segment Profit

- Segment profit for the quarter was $1.9B, and we expanded segment margin by 20BPS to 19%
- Now that's 90BPS at 19.7%, excluding the first year dilutive impacts from M&A

- Productivity and restructuring benefits along with higher catalyst and Solstice volumes were the key drivers of our margin expansion, partially offset by the higher Aerospace OEM incentives I just mentioned

Sales

- Sales of $10B were flat on a reported basis and declined by 1% on a core organic basis
- In PMT we delivered double-digit core organic sales growth in UOP and in Solstice
- In addition, our Transportation Systems and Home and Building Distribution businesses continued to grow nicely
- However, we did see declines in Defense & Space and Business and General Aviation similar to what others are seeing, and we had unanticipated supply chain delays within our Safety and Productivity Solutions business at the end of December, which modestly diluted our performance in SPS.

FCF and CapEx

- FCF in the quarter of $1.7B, up 8% with conversion of 126%, largely driven by improvement in working capital
- Our CapEx reinvestment ratio for the quarter exceeded 190% as we continued to invest in high ROI projects
  - This is the third consecutive year of reinvesting at over 150% of depreciation, but we expect the reinvestment rate to normalize to around one-times depreciation as we complete this investment cycle
- CapEx is expected to decrease by about 5% in 2017
- Overall, Q4 was a very nice finish to the year

Core Organic Sales and Segment Margin

Aerospace

- I'm now on slide five to discuss the segment performance
- Starting with Aerospace, our core organic sales came in at the high end of our December outlook with softness in Business and General Aviation and prior-year program completions at International Defense & Space leading to an overall 5% decline
- Turbo continued to be a great story, driven by our penetration in light vehicle gas applications
- For the year, core organic sales in our gas business were up more than 20% and over 30% in Q4, and we booked more than $5B in new platform wins, bringing our 2016 win rate for all of TS north of 50%, as Dave indicated
- Our Aerospace segment margin came in above our forecast, driven by stronger productivity and slightly lower OEM incentives than we anticipated, but still higher y-over-y

Home and Building Technologies

- Home and Building Technologies delivered 2% core organic growth led by Building Solutions, Global Distribution and our high-growth regions, where we grew more than 10% in both China and in India
- Growth in our Smart Energy business improved, driven by smart meter program rollouts in Europe

- HBT margins, excluding the first-year dilutive impact of M&A expanded by 60BPS, driven by benefits from previously funded restructuring and commercial excellence, that was just partially offset by the impact of higher distribution sales in the mix

PMT

- In PMT, core organic sales grew by 5%
- UOP was very strong, growing 10% in Q4, driven by catalysts, licensing and equipment
- Process Solutions finished the year with strong sales on software migration services
- Now the positive sentiment in our oil and gas businesses continues, and we see signs of improving activity with our customers around the world, including a 5% increase in the UOP backlog, driven by equipment, engineering and services
- And fourth-quarter orders growth in HPS of 8%, driven primarily by global mega projects and the industrial thermal business
- Finally, Solstice low global warming refrigerant volumes in Fluorine Products drove 8% core organic sales growth in Advanced Materials and we expect this trend to continue in 2017
- PMT margin expanded by more than 500BPS, driven by those strong volumes, as well as productivity and higher catalyst and licensing volumes in the mix

SPS

- In SPS, we ended the quarter slightly below expectations, as I mentioned earlier
- Intelligrated continues to perform quite well, its order rates have been strong, increasing by double digits in CY2016
- And the business is exceeding its income targets despite the acquisition and integration costs we've incurred
- SPS segment margin expanded 100BPS, excluding the first year dilutive impact of M&A
  - This was driven by benefits from restructuring and commercial excellence

EPS Growth

- Slide six shows the elements that contributed to our EPS growth in the quarter
- This was a quarter of strong earnings growth, driven principally by the performance in our business segments
- Starting on the left, EPS for Q4 2015 was $1.53 if you exclude last year's pension mark-to-market charge and Q4 [ph] 2000 – (17:26) earnings associated with the 2016 divestitures

Operational Segment Profit

- Operational segment profit reflects our core business performance, so it excludes non-operational impacts such as one-time M&A costs, the dilutive impacts from the strengthened U.S. dollar and incremental OEM incentives
- Operational segment profit was the big driver, contributing $0.19 to earnings

Productivity, Share Count and Tax Rate

- Our continued productivity across the portfolio, the increased volumes, most notably from UOP and Solstice, the operating earnings from the nine acquisitions we've completed since 2015 and the benefits from restructuring we continue to fund are all fueling the operational improvement
- All other is $0.02 tailwind and includes benefits from below-the-line items, a slightly lower share count and a lower tax rate, partially offset by the non-operational components of segment profit I mentioned
  - This works to earnings of $1.74 per share a 14% increase, our strongest quarter of 2016

Full-Year Performance

Sales

- Let's turn to slide seven to quickly recap our full-year performance
- Our full-year sales increased 2% on a reported basis
- For the year, we had good growth in Home and Building Distribution, global gas platforms within Transportation Systems, the commercial aviation aftermarket in Aerospace and in our Solstice business in Performance Materials and Technologies
- You can see a summary of our segment performance on the right of this slide
- And more details about our segment's fourth quarter and full-year sales performance are in the appendix

Segment Margins and FCF

- Segment margins expanded by 10BPS, excluding the dilutive first year impact of M&A, driven by productivity and restructuring benefits, partially offset by higher Aerospace OEM incentives and the unfavorable impact of foreign exchange
- Now the incremental y-over-y Aerospace OEM incentives diluted our segment margin by 50BPS in 2016
  - As you'll recall, this turns into a slight tailwind in 2017
- The results of all this were earnings of $6.60, up 8% y-over-y
- FCF of $4.4B was slightly better than we previewed in December, driven by better working capital performance
- So with 2016 now behind us, let's take a quick look at some market trends we are seeing as we head into 2017

Oil and Gas Businesses

- I'm on slide eight
- In our oil and gas businesses, the positive trends we started to see at the end of Q3 continued to evolve

Orders

- UOP orders were up more than 30% from H1 to H2 and all of our UOP businesses contributed to a strong book-to-bill ratio of 1.04 in 2016

- UOP project activity is improving and a number of projects that were on hold, particularly in China, are restarting
- We see good momentum in our high-growth regions driven by the demand for refined product in China and India's accelerated transition to the Euro 6 emission standards
- Domestically, our modular gas processing orders picked up in 2016 and we expect that to continue in 2017
- The activity in our international gas processing business continues to be slow, although the pipeline is encouraging
    - We see similar encouraging trends in process solutions

New Megaprojects

- While the pipeline of new megaprojects continue to be lumpy, there have recently been expansions of previous awards and startups of awards that were on hold from prior years
- The activity in our short cycle and software businesses, so in advanced solutions, lifecycle solutions and services businesses should continue to improve as our customers resume spend in small and mid-sized projects
- And on a regional basis, activity in the U.S., China, and Russia remains positive

Defense & Space Portfolio

- We're also starting to see signs of improvement in our Defense & Space portfolio, including 7% growth in our backlog and increased activity in our U.S. core Defense business
- However, there is continued softness, albeit moderating, in our commercial helicopters and domestic space businesses, consistent with what others are experiencing
- Our plan continues to assume that the U.S.
- DOD continuing resolution is in place through April
- For the year, we expect Defense & Space to be roughly flat on a core organic basis vs. 2016

Construction

- Regarding construction, while commentators have been expecting a slowdown in growth rates in 2017, recent indicators have been more positive
- The U.S. Dodge Momentum Index has risen for three consecutive months, reaching a new high in December, with a surge in commercial planning intentions
- Nevertheless, we continue to plan conservatively in this space and continue to forecast low single-digit growth in residential and commercial construction, leading to low to mid single-digit growth in HBT

Aerospace

- In Aerospace, we expect the weakness in the business jet market will persist over 2017
- This is most prominent on the OEM side and our outlook here has not changed
- In the aftermarket, the number of engine maintenance events is down

  - This will drive variation in growth quarter-to-quarter
- But for the full year, we expect aftermarket revenue to be in line with flight hours as our accelerated growth in connectivity solutions and repairs, modifications and upgrades provides offsetting momentum

Currency

- Regarding currency, as you know, most of our exposure in the euro is hedged at $1.15 and we have selectively hedged other currencies as well, thanks to this hedging approach
- There's no change to our EPS outlook despite the stronger U.S. dollar compared to the assumptions we had in our outlook call
- Currency headwinds, however, will bring down our full year reported sales outlook by about 1.5% and our revised guidance is now $38.6B to $39.5B in 2017 sales
  - The reduction is solely due to the foreign exchange I just mentioned
- So on an overall basis, the markets we serve are largely unchanged from what we said in December and we'll continue to monitor this as we move through Q1

Q1 Results

EPS, Sales and Segment Margins

- Let me move to slide 9 with a preview of Q1
- For total Honeywell, we're expecting first quarter EPS of $1.60 to $1.64
- That's up 6% to 9% y-over-y, excluding from 2016 the earnings associated with our 2016 divestitures, which was about $0.05 in Q1
- Sales are expected to be between $9.2B and $9.4B, which is flat to up 2% on an organic basis, or down 2% to 4% reported
- The difference between the reported and core organic sales is due to the divestitures and the impact of foreign exchange, partially offset by the impact of acquisitions, primarily Intelligrated
- Segment margins are expected to expand by 50BPS to 80BPS
- We expect that the sales in H2 2017 will be stronger than H1
- PMT and HBT will have a steady quarterly progression as they have in recent years

Aerospace and Safety and Productivity Solutions

- The differences between first and H2 are more pronounced in Aerospace and Safety and Productivity Solutions, but we have good visibility to the acceleration
- For example, in Aerospace, in H1, we expect higher y-over-y OEM incentives, which as you know, impacts the top line, but we expect that trend to reverse in H2
  - The decrease will drive a 1% incremental growth for Aerospace in H2
- In addition, we anticipate Aerospace aftermarket will be stronger in H2 due to increased sales, repairs, modifications and upgrades, including further growth of connected aircraft offerings

Transportation Systems

- In Transportation Systems, we also have H2 growth acceleration
- This is driven by scheduled new launches and the lapping of a large program completion that will negatively impact sales in the first three quarters of 2017
- In Safety and Productivity Solutions, our H2 is expected to be stronger, as Intelligrated reaches the one-year point in our portfolio in September and its growth is then included as organic

Safety and Productivity Business

- In the Safety business, we expect positive impacts of a stronger oil and gas industry and are already beginning to see small signs of improvement, including increased bookings in gas detection and personal protection equipment and increasing activity from distribution partners in the Gulf
- Lastly, we have significant new products launching in the Productivity business in the spring, including mobile printers and computers

Guidance

Tax Rate and Share Count

- For the full year, our guidance assumes a tax rate of approximately 25%, which is slightly higher than the full year 2016
- The tax rate is based on an assumed level of employee stock option exercises and any change in that exercise rate could impact the tax rate
  - We'll update you on that as we progress through the quarter
- Our first quarter guide assumes a weighted average share count of approximately 772mm shares

Aerospace

Sales and Margins

- In Aerospace, first quarter sales are expected be down on a reported basis primarily due to divestiture of the Aerospace government services business
- The strong deliveries to our air transport OE customers for newer platforms are expected to continue, driven by the 737, A320 and A350, but will be offset by declines in legacy platforms as we previewed in December
- Additionally, sales in business and general aviation will be down and aftermarket sales are expected to be slightly up
- Defense & Space will also be slightly up, driven by growth in our U.S. core Defense business, partially outside by declines in International Defense, U.S. Space and commercial helos
- Finally, in turbo, the strong growth we experienced in 2016 will continue, building on continued platform wins in gas and diesel
- Light vehicle gas will continue to be the main driver, while we expect a slight improvement in commercial vehicles, following a strong fourth quarter there

    - Aerospace margins are expected to expand by 40BPS to 70BPS, driven primarily by productivity, repositioning benefits and the effects to our foreign exchange hedging strategy, partially offset by the unfavorable mix of new vs. legacy platform deliveries

HBT

- HBT sales are expected to be up 1% to 3%, driven by new product introductions, including the Lyric launches that Dave highlighted, as well as Elster smart meter programs and another quarter of double-digit growth in China, primarily driven by our air and water business
- Our high-growth region strategy and [ph] One China (27:56) organization continue to serve us very well in this regard

Distribution

- In Distribution, we expect to see continued conversion of backlog in the Energy business and Building Solutions, and strengthen global distribution, which continues to outgrow its markets and peers
- We anticipate HBT margins will expand by 130BPS to 160BPS, driven by improving volumes in the products business, commercial excellence and the benefits from our 2016 restructuring action

PMT

- In PMT, sales are expected to be up 3% to 5% on an organic basis, or down 10% to 12% on a reported basis due to the spin-off of the Resins and Chemicals business
- We expect strong orders and sales growth throughout the PMT portfolio, as I mentioned earlier
- The segment margin expansion will be driven by productivity and the impact of the spin-off
- PMT continues to execute very well on their productivity initiatives

Safety and Productivity Solutions

- In Safety and Productivity Solutions, we expect that organic sales will be down 1% to up 1%, or up 19% to 21% on a reported basis, including the Intelligrated acquisition
- The Safety business is expected be up slightly in Q1, driven by new product introductions in both the industrial safety and retail footwear businesses, improving orders in the industrial vertical overall and improvement in our supply chain
- The Productivity business is expected to be flat to slightly down, driven by continued retail market softness that is impacting demand for scanners and mobile computers
    - That being said, we are seeing significant orders growth in our supply chain related business, particularly in our voice-enabled Connected Worker solutions and we expect to clear the supply chain challenges we faced in Q4
- In addition, double-digit growth in Intelligrated is expected to continue
- We are confident that our investments in connected retail solutions, coupled with Intelligrated warehouse automation solutions, are positioning the business for long-term growth
- SPF segment margins are expected be up more than 150BPS, excluding the first year dilutive impacts of M&A, driven primarily by the impact of productivity and restructuring benefits

Earnings and Organic Sales

- Let me move to slide 10, where we're reaffirming our 2017 earnings and organic sales guidance and have updated the y-over-y figures to reflect the 2016 actual results
- From a total Honeywell perspective, we expect sales in the range of $38.6B to $39.5B, up 1% to 3% on a core organic basis
- Reported sales growth will be lower in the range of flat to down 2% primarily due to the impact of foreign exchange and the divestitures we completed in 2016
- As I indicated earlier, the difference in 2017 sales from our outlook call is solely related to our FX assumptions
- Segment margins are expected to be 19% to 19.4%, or up 70BPS to 110BPS vs. 2016
- EPS expected to be between $6.85 and $7.10 or 6% to 10% growth vs. 2016
  - The quarterly linearity for EPS remains roughly in line with prior years

FCF and Tax Rate

- FCF forecast remains in the range of $4.6B to $4.7B that's up 5% to 7% from 2016
- On the right side of the page, we've updated our segment guidance to reflect the impact of final 2016 results on the variances and updated foreign currency impact in each business on the sales line
- Otherwise, there are no changes to the outlook from December
- As I said earlier, our tax rate maybe more volatile quarter-to-quarter depending on the number of employee stock options that are exercised
- Our guidance assumes an approximate 25% tax rate at present, slightly higher than last year

Summary

Let's turn to slide 11, to sum up, we finished 2016 strongly. 14% earnings growth, 8% FCF growth in Q4 and 8% earnings growth for the full year

We reaffirmed our 2017 outlook and expect first quarter EPS to be up 6% to 9% excluding divestitures

We've put together an incredible 2017 plan under Darius' leadership that continue to deliver significant value to our shareholders, our customers and our employees

QUESTION AND ANSWER SECTION

<Q - Scott R. Davis>: So look, I have a nitpicky question, this JetWave thing. Is this – sounds interesting, for sure, and you've talked about it for the couple of years. It's not brand new, but is this more of a – just new platforms or can you do a rip and replace and get rid of some of the existing slow Wi-Fi that's out there with GoGo?

<A - David M. Cote>: You can absolutely retrofit and that's one of the comments that I had made because we're in that process and I think as consumers start to see what's possible when you are using this JetWave service, they're going to be demanding it. I mean, it really is stellar. I was on the plane. I wanted to test all the stuff myself. My guy – I've given all the guys a hard time by going faster. So I started live streaming a show. It worked perfectly. I got a phone call through the iPad, while I was watching the show, answered the phone almost – in fact, I noticed no latency in the call at all. And then when I ended the call, the show resumed exactly where I'd left off. It was quite impressive.

<A - Thomas A. Szlosek>: Yeah, I'd add to that that. I'd add Scott that we have over 1,000 aircraft that are committed to JetWave. We've got over 20 airline wins to-date. It's a selectable on the Airbus. We've been certified on the platforms that we mentioned earlier. We're working with Boeing to get certified, as we said. So it looks pretty good. The growth is very strong double digits for us in 2017.

<Q - Scott R. Davis>: So how does the profitability on this stuff work? I mean, are you going – I assume this is some sort of monthly charge, but when do you start making money on something like JetWave? Is it a couple years of investment and then it really starts to kick in or on day one are you shipping out units that are profitable?

<A - David M. Cote>: Yeah, we make money now.

<Q - Scott R. Davis>: Is that a monthly charge, Dave, or is it – how does it work?

<A - David M. Cote>: It's going to vary on some of the – depending on the segment. So I don't know, if we've shared all that on the business model but it'll vary between large planes and biz jets.

<A - Thomas A. Szlosek>: Yeah, but to be clear, Scott, I mean there is a significant amount of equipment that goes along with this, which is [ph] sell and install (35:40) model for us. So that is also helping the growth and creates that profitability for us immediately.

<A - David M. Cote>: This is a good one.

<Q - Scott R. Davis>: Okay. Good. That's why I ask. Good luck, guys. Thanks.

<A - David M. Cote>: Scott? Scott?

<Q - Scott R. Davis>: Yes? Yes.

<A - David M. Cote>: Before you go, I will always remember that you were our first supporter back in those dark days when I first got here. So that's not something I'll forget and I was obviously pleased that we could prove you correct for the 15 years but thank you for that.

<Q - Scott R. Davis>: You're quite welcome. I was pretty – I got lucky. That's all. But best of luck. Thanks, guys.

<A - David M. Cote>: It was a bold move at the time and I appreciate it.

<Q - Charles Stephen Tusa>: It's been a good one for him, so congratulations to him. First question, what TV show were you watching?

<A - David M. Cote>: It was The Americans. I don't know if you see it but I'm only in the first season, so don't tell me anything.

<Q - Charles Stephen Tusa>: Glad to see you're still working hard out there. So…

<A - David M. Cote>: I got to test the system. You don't want me flying the plane.

<Q - Charles Stephen Tusa>: I can picture Darius in the same jet just doing something different on his iPad. So just a question on tax. Can you maybe just talk about what the dynamics are around how, if repatriation comes through, border adjustments, just give us some color on your kind of net export position? If the Brady Bill does go through, I'm sure you guys have done some analysis, what should we expect?

<A - David M. Cote>: We're a net exporter, so on balance, it would benefit us from a tax standpoint. When it comes to repatriation, it depends on what the final deal is if there's a really high tax rate that's put on it, well, that makes it a lot less interesting. So we'll have to judge it when we see it.

<Q - Charles Stephen Tusa>: And again, how much – if it was a very low rate on repatriation, I mean, would you be able to do something pretty quickly?

<A - David M. Cote>: Sure.

<Q - Charles Stephen Tusa>: Okay.

<A - Thomas A. Szlosek>: There's going to be some latency between when something's enacted and there's some work that we have to do on earnings and profit studies but it's nothing that's...

<A - David M. Cote>: It doesn't take years.

<A - Thomas A. Szlosek>: No, not at all.

<Q - Charles Stephen Tusa>: Right. Okay. And then just kind of an annual run rate on Intelligrated. Just kind of back of the envelope I'm getting something for this year kind of close to – you've given us the first eight months contribution getting something close to about $1.1B. Is that around the right number? And what was the annual revenue that it finished out in 2016 for Intelligrated?

<A - Thomas A. Szlosek>: Yeah, I mean, it's a little bit less than that, I mean, around $900mm is what we would call the annual run rate but it is growing at that 20% clip. So you can see that it could get pretty quickly to the numbers you mentioned, Steve.

<Q - Charles Stephen Tusa>: Okay. So the $900mm is kind of where it's growing today in – for 2016?

<A - Thomas A. Szlosek>: I'd say that's an annual run rate that we can work off of.

<Q - Charles Stephen Tusa>: Okay. And the margin there was relatively low this quarter. I think it was kind of low single digits. How do you kind of see that margin? I know it's not going to be one of your best margin businesses here in the near term but what's kind of the trajectory of getting that to at least a double-digit range? I know it's a growth story. I'm just curious as to when the contribution really picks up.

<A - Thomas A. Szlosek>: Yeah, I mean, as you can appreciate, the first year is always a tough one for M&A particularly one of that size. So that's why we've referenced those lower margin rates but when those first year charges go away as well as when the synergies kick in, we'll be low double-digit kind of margin rates.

The interesting thing though is that the installed base that we built really gives us a platform for other offerings, particularly on the software side and that's one of the main reasons we bought the business is to be in the supply chain and distribution arena from a technology perspective, that's going to help that margin rate as well.

<Q - Charles Stephen Tusa>: Okay. Great. And then one last quick one. Dave and Darius, at the March investor meeting, I think Dave you're still going to be around for that one. How prominent of a role will Darius play as far as presentation? And what should we expect to hear in March from Darius?

<A - David M. Cote>: Well, they made room for my walker, so I should be just fine. Darius?

<A - Darius Adamczyk>: I think we just kind of laid out – in the finalization of laying out the agenda, but you should expect me to do a majority of the presentations that Dave normally does. Obviously Dave will have a role at the beginning of the conference, but the expectation should be that I'll be leading most of the presentations that Dave led in the past.

<Q - Steven Eric Winoker>: Dave. I can always count on you. Listen, I want to go back to the meetings that we had in December when you and Darius talked about, you used the word animal spirits a lot and maybe best describer of what you were seeing globally with your customer base. Could you maybe – it's been a month or so since then, a month and a half, how has that changed?

<A - David M. Cote>: I would say it's changed to become more positive. I've really been impressed to see that improvement in animal spirits, small company CEOs, big company CEOs, small banks that I've talked to, really quite surprising. So the animal spirits are real. There's no doubt about it. And hopefully if we can just get a few sparks here with some actual actions, it could be enough to really start to turn the herd. I don't think it takes us crazy levels of GDP growth. If it did, that would be a problem, but I think we are going to see an improvement here, not ready to bet on it. We're going to continue to plan for a slow growth global economy, but it still feels more positive than it has in a while coming off of well, the worst recession since the Great Depression.

<Q - Steven Eric Winoker>: Okay.

<A - Darius Adamczyk>: Just to maybe add one other comment to that. I certainly would agree with Dave's commentary regards what we're seeing. Maybe the one offset to that and I think our clarity sooner rather than later would be particularly helpful would be on a lot of the discussions and that's really what they are at the moment, are discussion around trade policies as they relate to both Mexico, China, and some of the other trade partners that we have. So I think in our view the sooner that gets cleared up and resolved, I actually think there could be a further uptick.

<Q - Steven Eric Winoker>: Great. You guys talked in your main comments about – your prepared comments about safety and productivity and some of the issues there. But a little more color would be helpful on the supply chain, especially in terms of these things that – those issues are reversing? Do you expect this thing to get back to normal or is some sense of timing around that, a little bit more color would be helpful there.

<A - Darius Adamczyk>: Yeah, sure. It really goes around some of the issues were primarily around some of our voice and product lines, essentially it was due to a supplier issue due to a transition. We do expect those issues to be cleared up in Q1 and right now we're seeing a recovery plan that's in place, so it did impact us. Think about an impact in the tens of millions of dollars, not hundreds. But nevertheless, it had a meaningful impact to our Q4 and we expect a full recovery in Q1.

<Q - Steven Eric Winoker>: Okay. And just, if I could, Solstice, the big backlog, how do you see that? I think you said $3B. How do you see that playing – or how do you see that sequencing out over the next few years?

<A - Darius Adamczyk>: Well, we see it, obviously, accelerating this year and continue next year, as particularly with all the European new cars having Solstice in them or a competitive offering and then a further acceleration in the U.S. So we continue to seek tailwinds for that product as we move forward and continue to expect a double-digit growth rate both in 2017 as well as we head into 2018 and beyond.

<Q - Steven Eric Winoker>: Okay. And sorry, just quickly on Steve's question and you said you were a net exporter on tax. You guys report $5.5B, I think, on gross export. So there have been some guesses out there. Could you just put a finer point on the size of the imports just to give folks some idea of the order of magnitude here in the delta?

<A - Thomas A. Szlosek>: I don't think it's something that we report today. So let's just say it's a goodly amount. I'm not worried.

<Q - Jeffrey Todd Sprague>: By the way, I was guessing you might have been watching Celebrity Apprentice to try to get a read on who the next president could be, No?

<A - David M. Cote>: I think they already had that argument six or seven years ago. So I think you still got to be a citizen, I mean, born here.

<Q - Jeffrey Todd Sprague>: Hey, just a couple of questions. Can you and perhaps it's Tom, but just put a finer point on anything we should know on the timing of Aero OE incentives quarterly in 2017, just to kind of avoid any confusion or surprises to the extent that you do have visibility on timing?

<A - Thomas A. Szlosek>: Yeah, the way I'd characterize it, Jeff, is overall, it's a modest tailwind for the year and – but H1 will be different than H2. In H1 it's actually a headwind as we talked about for Q1. That does moderate in H2 to result that overall modest impact y-over-y. I'm talking less than $50mm or so on that.

<Q - Jeffrey Todd Sprague>: Okay. And then I'm sorry if I missed it in the kind of the preamble, but also a finer point on commercial aero aftermarket if you could, large OE vs. business jet and kind of what – how flight hours tracked for you in the quarter?

<A - Thomas A. Szlosek>: Yeah, I mean, we expect in 2017 to be – on the aftermarket side to be largely in line with flight hours on the air transport side. And that shows up in both the spares as well as the repair and overhaul businesses. I would say that there is a somewhat of a shift into the newer platforms that we've talked about with the extensive buildups on both air transport and business jet side and that changes the installed base, the character of the installed base. It freshens it, it has more units under warranty. So particularly on the business jet side that can have a timing impact while you are still under warranty in some of the new platforms. So we'll also, on the business jet side, hopefully track the flight hours, but you could see some – a little bit of a softness as a result of that factor I explained.

<Q - Jeffrey Todd Sprague>: What's the actual performance in Q4, Tom?

<A - Thomas A. Szlosek>: Actual performance overall on the business jet side was low single-digit for both the spares and the [ph] R&Os (49:17).

<Q - Jeffrey Todd Sprague>: And then finally, just I would imagine the pension funding took a nice repair here at the end of the year, it was in pretty good shape anyhow. But is pension funding kind of off the table for you guys in the foreseeable future?

<A - Thomas A. Szlosek>: Yeah, I would say that we continue to have obligations on the international side. We have a number of plans. I mentioned, Germany and the U.K. are some bigger ones and there's modest contribution required there, but for the big U.S. plan, it's in pretty good shape. We see no funding requirements for the foreseeable future.

<Q - Howard Alan Rubel>: You've always watched head count and you've always been conservative in your forecast and there's a little bit of have-to in your numbers. How have you gone back to the business units and made sure that there's some real confidence in that? I mean, sometimes you have short-cycle businesses and some, there's obviously backlog, but what have you done to test your managers?

<A - David M. Cote>: Well, I'll turn the bulk of the question over to Darius but what do you mean by have-to?

<Q - Howard Alan Rubel>: Well, H2 is where you expect a bit more of the performance than in H1.

<A - David M. Cote>: Okay. Well, Aero incentive is playing to that, as Tom mentioned, then just comparisons.

<Q - Howard Alan Rubel>: Yes. Exactly. And I mean...

<A - David M. Cote>: It's not that – it's not like it's a ramp-up or anything like that but you have to – you've got to have a – you've got to believe in. So it's not that big a deal, actually, but Darius spent a lot of time on 2017 plan with the businesses. So I'll turn it over to Darius.

<A - Darius Adamczyk>: Yeah. No, I think, as always, we plan and invest cautiously, so I think we certainly plan some investments, particularly in the front end of the business, in terms of sales and marketing and R&D but we're certainly not going to spend all of that in Q1. Because sometimes you can certainly get ahead of yourselves and we're going to be monitoring to see if the growth is coming in and whether or not we can afford to make those investments and they're going to be phased throughout the years with triggers that will align with the kind of growth that we're seeing. So this is not a situation where we're going to kind of spend the full investment budgets in Q1 and then hoping that things happen. It's just not the way we operate and won't now either.

<Q - Howard Alan Rubel>: No, I understand but what are you doing in terms of head count for the year? You're planning a modest increase or you're planning on keeping that relatively stable?

<A - Darius Adamczyk>: All in all, given the restructuring activities that we have planned, we think those are going to be stable.

<A - Thomas A. Szlosek>: Yeah. We are definitely adding on the commercial side, I mean, across the portfolio, in Aerospace PMT and other places, we are adding head count, both in developed regions as well as high-growth regions.

<A - Darius Adamczyk>: And then just to add and I think you're going to also see a mix change because – particularly in the former ACS organization but really, throughout. We took out couple layers of management to increase organizational speed and decrease bureaucracy and we took some of that money that we saved and reinvested it back up, particularly in the sales forces.

<**Q - Howard Alan Rubel**>: And then one last question sort of talking about expansion in general and sort of two parts to it. One is, you fixed a big chunk of your debt going forward. Is the reason you still have the amount of CP outstanding, you're anticipating some benefit from cash that you can repatriate? And how are you thinking about deals for the year? I know it's always – Dave reminds us every time, it's all about timing and that's not predictable but within that context, can you talk about possibly some of the areas you'd like to enhance?

<**A - David M. Cote**>: I'll turn it over to Tom. But right now CP is cheap and we're well covered with our credit line, so it just makes sense to use it that way and we do. And you're correct. You foretold the answer on acquisitions, it depends on what becomes available and is it at a price that we're willing to pay. And Darius is not New Hampshire cheap, but he is cheap. So he's going to be the – I don't know what adjective he wants to put on it, but so you're not going to see a diminution in discipline here.

<**Q - Howard Alan Rubel**>: Thank you.

<**A - Darius Adamczyk**>: Yeah. I would echo what Dave said on the debt that's outstanding. Dave used the word cheap, I would say CP is actually profitable and I'll just kind of leave it at that. But – we do have an extra amount of cash on the balance sheet because of that and we're trying to maintain some flexibility to the extent opportunities come up as Dave said. So it's a good time to be taking advantage of that.

<**Q - Howard Alan Rubel**>: Thank you.

<**A - David M. Cote**>: [ph] You good? (54:53)

<**A - Darius Adamczyk**>: Yeah. [indiscernible] (54:54) so I think just to reinforce what Dave said, it's certainly going to be cheap. Probably the other word I would use is selective. And really do our, as we always have done, real diligence around what does that end market look like? What are its growth prospects? What is the competitive environment? What it's going to evolve to? What are the disruptive technologies? We're going to be spending – we always have and we're going to be spending even more time on those elements to make sure that these – our M&A strategy continues to be highly accurate, highly predictable. And we're in line with our financial objectives.

<**A - David M. Cote**>: And, Howard, I suppose that before you go, I should add, I'll always have great memories of going to Red Sox games with you. But I'll also remember that you blew me off at a meeting at TRW, and I just wanted to make sure I publicly stated it.

<**Q - Howard Alan Rubel**>: Yes, but there was a cheesecake that was made up in homage for that, if you remember.

<**A - David M. Cote**>: So I figured I better public about it, not just private anymore.

<**Q - Joe Ritchie**>: I guess, my first question in listening to Darius, it was interesting to hear that there's some thought, as things kind of shake out that you guys could benefit once policies are set. Clearly, you're in an export position. But I guess, I'm wondering, Dave or Darius, how concerned are you guys about trade wars? Clearly, China's been a big growth engine for you. And then also secondly, there's been a lot of Tweets around Defense pricing having to come down. And so what – how do you guys feel your position there as well?

<**A - David M. Cote**>: From – to echo what Darius said earlier, yeah, you have to be worried about a trade war. If it gets to that point, it's not going to be bad just for trade but it's going to be bad economically. It's kind of tough to be in economic island now, especially if you're the number-one economy in the world. So it depends on how all that gets handled. And yeah, of course, it's a concern for us. On the Defense side, most of our stuff – you've heard me say this in the past, but Defense is more of a sales channel for us. There's very little that we do where it's just a single product solely for defense. It tends to just be another channel for us. So a lot of our stuff is already just done on a commercial pricing basis, and I think that kind of mitigates any potential impact for us.

<**Q - Joe Ritchie**>: Got it. So you're not – go ahead. Go ahead, Darius.

<**A - Darius Adamczyk**>: Yeah, just to add to that, I mean, I think, obviously, there are a lot of the discussion and I would put it very much in a form of discussion and kind of back-and-forth, it is a obvious concern because I think any

kind of trade disputes, particularly as it relates to Mexico and China, which are two of our key trading partners would be a detriment not just to Honeywell but to the broader economies. But firstly, I remain optimistic and I think that this is going to get resolved in a manner, which is constructive for all parties involved. And right now, we don't have anything definitive anyway other than pure speculation. So we do remain optimistic that it will evolve that way.

<Q - Joe Ritchie>: Okay.

<A - Darius Adamczyk>: And just to – Joe, just to add to Dave's point on the Defense side. Many of our positions are not directly with the government. We're working with the primes. I mean we're not a prime, and so they're very good at negotiating with us. And we have commercial arrangements with them, as Dave said. And for the platforms that are getting all the attention recently, I mean we're very well aware of what's going on. I mean we've been on ongoing – even well before this, of commitments around cost with primes that we serve as our primary customer. So don't want to dismiss the concerns, but it's something we're accustomed to. It's an environment that we're – that we've operated in for years and we expect it to continue.

<Q - Joe Ritchie>: Got it. No, that's good to hear. And I guess maybe as a – as my follow-on question, it was nice to see the cash flow come through this quarter and fully recognize that – 2017 appears to be a little bit of a transition year on the cash flow. Maybe kind of talk us through again, kind of what's driving the kind of 2-point difference between your cash flow growth and earnings growth in 2017? And then what's kind of the framework to think about 2018 and beyond for cash flow?

<A - Thomas A. Szlosek>: Yeah, I mean, it's been an interesting year for us as far as cash has been concerned. I mean we're – clearly had some headwinds in the markets that we serve. And the conversion in the first couple of quarters was not what we wanted. But in the third and particularly in Q4, with a continued focus particularly on working capital, we were able to get that conversion that you saw that was north of 100%. Overall for the year, 86%, we think that will improve as we head into 2017. That's going to come from better working capital performance and it's not just in our supply chain and inventories but we have opportunities in receivables and in payables, so we're working all of those areas, as well the CapEx that we've talked about, begins to moderate in 2017. And that moderation accelerates into 2018. So if we go from $1.1B, which is that – the re-investment ratio we talked about over 150%, we moderate that down to 110% or 105% or 100% by 2018 that gives us a nice boost as well to FCF, so that should enable the conversion to continue to improve from 2017 into 2018.

<Q - Nigel Coe>: Dave, just I would love any thoughts you have on the pick-up we saw in December. I mean, we've seen this pick-up across the board. Obviously, the pro-business spiel we're hearing from D.C. is encouraging but the quickness of the turn-up has been surprising. So I'm just wondering, do you think it's just the absence of uncertainties that we have regarding presidential election, Brexit, et cetera, et cetera, et cetera? Do you think it's oil and gas? I mean, what do you think has caused all this pick-up?

<A - David M. Cote>: Well, I do think – and I've said this for several years that I don't think economists also really understand what happens after a severe financial recession. It was true in the 1930s and it was true of this one and the hit to overall confidence was just really, really strong, really hard. A and when you have the whole herd thinking about slow global growth and that's just the way it is and that's just the way it's going to work, well it becomes self-reinforcing because we all act that way. If you take a look at the conditions for recovery, it's actually been pretty good for a while.

I mean, we've been talking for a number of years about how good consumer balance sheets were in the U.S. You look at capacity utilization. It's in good shape. Unemployment down 4.5% or so. You can argue underemployment but still employment's in good shape. Bank balance sheet in the best condition they've ever been. Most companies' balance sheets, really good shape. And I really think it just needed a spark. And the election, assuming that we – that the right things get followed through and we don't end up with some unintended consequences, provides that spark. And I'm really encouraged by what I'm seeing. Now it's got to turn into something but right now the feelings are better than I've seen them in a long time and that could be enough to get the herd moving in the direction of saying I better not miss this moment as opposed to, gee, just hunker down and keep waiting it out. And that's not a simple short explanation but I think that's probably the case overall.

<Q - Nigel Coe>: No, it's great and I appreciate the color. And then just turning back to SPS and obviously it's been a challenging 2016 as per the plan. But obviously we haven't had perfect transparency on this business in the past. You have large projects and inventory channel headwinds and obviously, the supply chain issues you called out. Are these part and parcel of – is this the nature of the beast or was 2016 just sort of a perfect storm of bad events? Any sense on that you can give us?

<A - Thomas A. Szlosek>: Yeah, I think this is more a – we view 2015 or 2016 as much more of an anomaly, than kind of the status quo. I think we have enough – a confluence of events which were all kind of came together wrong time. Number one is, obviously, we talked a lot about the USPS contract and that conversion. Number two is we had that channel inventory issue that had to work its way through.

Three is, and this was more timing related than anything else. There was a shortage of larger deals that are notable, because some of this business goes through distribution and some of it goes direct. And those direct deals were few and far between, not just for us but really a lot of our top competitors as well.

And then four is I think we, personally, I think we have room for improving some of our channel programs, et cetera. So we do expect this business to very much return to its performance that it's enjoyed for many, many years and view 2016 as an anomaly.

<Q - Nigel Coe>: Okay. And the channel inventories, are they at a level now where you're comfortable with sell-in equals sell-out?

<A - David M. Cote>: Yeah, I think most of that has been resolved with one exception, but I would say 70%, 80% of the challenge is behind us.

<Q - Nigel Coe>: Right. And then just finally for Tom, you called out in the PR that interest expense 8% below 2016 levels. I mean, obviously, I can do the math, but it implies the interest expense close to the $300mm for 2017, a bit below what we had. That is the right number?

<A - Thomas A. Szlosek>: It sounds about right. Yeah.

<Q - Andrew Kaplowitz>: Some of your business jet customers have continued to cut production during Q4. You obviously didn't change your 2017 guidance in Aero. So my question is how much visibility have you had to these production cuts? And when you think about your overall negative 2% to 1% organic forecast for 2017 in Aero, do you have a decent contingency for more business jet business already in your guidance and if some stabilization in U.S. Defense or commercial helos is something you're expecting and maybe could represent a tailwind to your guidance?

<A - Thomas A. Szlosek>: Yeah, I mean, first starting with the business jet, we, for sure, have the production schedules for the platforms that we're on with the large OEMs. We've actually been more conservative than we're – had taken a conservative approach in H2 when we were putting together the 2017 plan. So some of the cuts that, actually, you're referring to, we most likely had contemplated in the guide that we gave you. So we're not – I don't think we're going to be caught off guard necessarily by what you're now seeing and hearing and reading.

On the commercial helo, that's a space that, as you know, is heavily dependent on oil and gas. And for us the declines over 2016 were just reflective of what was going on in the market. I think we're going to still see some tepid conditions. I don't foresee growth for 2017 that you would consider very significant, if at all. But as the sentiment starts to improve in oil and gas, as we articulated in the prepared comments, we do hope that that will turn into some benefits. And you're already seeing some of the OEMs report on the helos side, some modest improvements. So hopefully that's a sign of things to come. We haven't built much of it into our plan is the way to think about it.

<Q - Andrew Kaplowitz>: Okay. That's helpful, Tom. And then we know that you've had more – I mean, you will have more difficult comparisons as the year goes on in PMT, especially late in the year but Solstice should continue to ramp. You told us what UOP backlog is. It's good, up 5%. [ph] Keeping all the present (1:08:40) just really remains steady, I would surmise that UOP should continue to be solid or improve. So why would sales growth drop from the 3% to 5% you're guiding to in Q1 as you go through the rest of the year? Again, is it just that you need to be conservative [ph] because (1:08:55) it's a pretty short-cycle business, is that sort of the way to think about it?

<A - Thomas A. Szlosek>: I think we'll take it quarter by quarter. We are seeing, as we said, a pretty strong backlog in UOP, and hopefully the orders that materialize in the quarter will contribute to that further growth. We're not trying to signal any sudden demise between first quarter and the rest of the year for that business.

<Q - John G. Inch>: Dave, aren't you glad you left that GE Appliances job? You'd be working for the Chinese otherwise.

<A - David M. Cote>: Well, for a variety of reasons I'm not sorry. I don't think – John, you were – well, you took a little longer to convince, you were also an early supporter. So thank you.

<Q - John G. Inch>: You're welcome. I wasn't that far behind Davis but you're right. You know it takes me a little longer to kind of get moving in the morning. I'm trying to figure out how to top that trade wars question. Maybe I should ask you what you think of asteroids, but I'll leave that one for Darius.

Hey, Safety was down 5% on the core, and the reason I ask this, 3M's Personal Safety business was actually really good and that company actually called out some selective pricing actions to try and stimulate some volume. Are you seeing anything competitively in that dynamic other than just the market? That's my first question.

<A - Thomas A. Szlosek>: I don't think so, John. I mean, the – I would say the growth rate that you mentioned, the mid-single digit decline, was largely the result of the supply chain challenges that we had. And I think we would've been in line with the market otherwise. And as Darius said, January – that gives us a nice boost for January and when we get those issues behind us.

<Q - John G. Inch>: Yeah, that's fine. Just big picture, you guys are obviously not a beta company, which makes you an investable company. But if the economy continues to percolate and let's just hypothetically say your shares lag, what are your thoughts about really starting to leverage up the balance sheet and buy your stock, if the market is not willing to comply, at least in the short run?

<A - Thomas A. Szlosek>: Yeah, certainly that's been something that we contemplate, we've talked about our approach, which the foundation is to keep the share count flat with – through buybacks, and to opportunistically go after further buybacks as the market conditions look attractive. In Q4, we did about 2mm shares of buyback which is more than we normally would. And what I would say is that we're going to continue on that approach. I mean, we do have a little bit of a restricter in terms of where our cash is located. You know that most of the cash is overseas, so we can't just take $9B of our overseas cash and put it into buybacks, I mean, it's not – just not practical.

Should circumstances change around the new administration and tax policy and so forth, we'd obviously take a look at it. But right now our existing approach is to keep that share count flat and look for opportunities for displacement of the market to accelerate where warranted.

<A - Darius Adamczyk>: I think overall, John, the approach will be similar to what it's been. So we're going to be opportunistic in terms of those buybacks. And if the tax environment does change and that transaction to bring that cash from overseas becomes a bit more frictionless, we're going to review that. And we're going to review it primarily two different things. We're already committed to growing our dividends at a rate, which is faster than EPS, so we said that. You know about our CapEx profile, which is going to be elevated this year and then start tapering off. So basically it comes down to an investment in either buybacks or M&A. And a lot of that has to do with timing and market conditions and what we see, and what's available but that's kind of a rough framework as to how to think about the trade-offs?

<Q - John G. Inch>: Yeah, it makes sense. I mean, Darius, obviously there's a lot of perspective that part of your mandate is going to be to try and move Honeywell's growth higher, which you probably can't do, you can do some of it organically, but it's going to require some M&A and some of these software deals. You did greater than Intelligrated, but some of the stuff is pretty pricey, especially the market up. I mean, do you have a bias in the short run just given the run? Is it – let's just assume that cash was frictionless, you didn't have these repatriation issues, would you be preferring deals over share repurchase right now or is it unclear?

<A - Darius Adamczyk>: It's really not that clear because it all depends what deals are out there and what kind of prices. So it's hard to say I'm definitely going to prefer one over the other. And I think in terms of – yeah, I mean, I certainly hope to enhance our growth rate through some of the portfolio work that we have been doing, and will continue to do. But I will also – there's a flip, the other side of the coin here, which is I think we've got to continue to maintain our discipline around what we pay and, granted, some of the higher growth assets usually require higher multiples. But I think if we can – if we do our homework right and look real hard, and I think Intelligrated is a good example of that, I think there's still an opportunity to buy assets and buy companies at attractive prices.

<Q - John G. Inch>: I also think you got some damn good organic growth efforts going.

<A - Darius Adamczyk>: Yeah.

<A - David M. Cote>: I don't quite buy the premise, John, our organic growth is what it is.

<A - Darius Adamczyk>: Yeah. And a lot of the self-help here that we're doing around our newly launched commercial excellence, our [ph] DPG (1:15:02) efforts, which we're spending a lot of time as a company. So I think it really is a combination between what I call self-help and continuing to have work on our portfolio like we've done over the last – especially over the last 18 months.

<Q - Andrew Burris Obin>: Darius, look forward to your hosting in the call going forward. So question on top line and margin. It seems that top line was impacted by the FX and you have taken up margin relative to December 14. Looking at the index, looking at the Bloomberg Currency Index, it seems pretty flat from a month ago, so just wondering what particular currency is driving it. And the second, just looking at high-margin guidance by segment, how much of it is just FX and is there any self-help built into this high-margin vs. a month ago?

<A - Thomas A. Szlosek>: Yeah. Andrew, when you go back to our guidance, I mean, we were pretty clear on the FX assumptions that we use for 2017. Our normal process is to update the FX rates at the end of the year. And so when we do that, you end up with that – the impact, mostly due to – if we had used, for example, $1.10 our planning rate for the euro, we change that to $1.05 that has an impact. The bottom line, though, is that the organic growth rates do not change. We're calling 1% to 3%, the EPS still stays the same at that 6% to 10% growth and the cash conversion remains the same. So it's a matter of just picking the number and finalizing it as is our normal process.

<Q - Andrew Burris Obin>: And on the margin question?

<A - Thomas A. Szlosek>: Yeah. I mean, the change in the margin is solely due to lower sales in the same segment profit dollars…

<Q - Andrew Burris Obin>: Got you. No. Yeah.

<A - Thomas A. Szlosek>: …because as you know, our hedging approach keeps our segment margin protected.

<Q - Andrew Burris Obin>: And then a question on China, they had a big stimulus last spring, you guys, at your trip this summer, you did a very good job sort of highlighting the fact that there is a lot more growth in China than the Street was thinking at the same time. We're sort of starting to see it in the numbers. Given that the Party Congress is in the fall, how much juice do you think there is in this growth beyond 2017? And how concerned are you guys as to sort of growth decelerating into H2 2017 in China?

<A - David M. Cote>: It's kind of tough to predict exactly what's going to happen to China economically to your point especially with their, I guess, quote, elections coming up. But I'd say overall we're still long-term believers in China, so whether they have a lower growth year than what they've had in the past, at the end of the day, our prospects there are still extremely good. And you look at all the businesses we're in, our opportunities to gain share, to get to Tier 3 and 4 cities is still just tremendous, so I don't see it as having that huge an impact on our performance.

<Q - Andrew Burris Obin>: And if I can just squeeze one more, just some color on HPS. You touched on it, but can you provide just a little bit more color on region, which are positive and which are negative?

<A - Thomas A. Szlosek>: Yes. I don't have that at my fingertips. And it's probably a good follow-up question for Mark on the call later or on the – when you talk to him later.

David M. Cote

Closing Remarks

After 15 years at the helm, this is my last earnings call as some of you pointed out

It's been an honor to lead the Honeywell team for this many years and all of us are proud of what we've accomplished

I'll have to say we're even more excited about what's coming

Our outperformance will continue because we've invested heavily in people, process and portfolio, to do the seed planting that we've always done

We do well today not just because of what we are doing today but also because of what we did three and five years ago

That outperformance will continue on to Darius

- He is just as driven as I am and he's smarter

We have many, many terrific years ahead of us

This is an exciting time to be part of Honeywell and you'll all benefit from it

Now while it is a bittersweet moment or time for me because it would be fun to continue running Honeywell in these great years to come, it's worth a little time to also focus on the sweet side of it

Next weekend we will again celebrate that quintessential American holiday, the Super Bowl

And in that celebration, it's important to remember that we are all patriots

Please join me in supporting and celebrating America's team