Q1 2020 Earnings Call

Company Participants

- Darius Adamczyk, Chairman and Chief Executive Officer
- Greg Lewis, Senior Vice President and Chief Financial Officer
- Mark Bendza, Vice President, Investor Relations
- Torsten Pilz, Senior Vice President and Chief Supply Chain Officer

Other Participants

- Andrew Obin, Analyst
- Deane Dray, Analyst
- Jeff Sprague, Analyst
- Josh Pokrzywinski, Analyst
- Julian Mitchell, Analyst
- Nigel Coe, Analyst
- Peter Arment, Analyst
- Scott Davis, Analyst
- Sheila Kahyaoglu, Analyst
- Stephen Tusa, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Honeywell's First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

And I would now like to introduce you to your host for today's conference Mark Bendza, Vice President of Investor Relations. Please go ahead.

Mark Bendza {BIO 21178179 <GO>}

Thank you. Savannah. Good morning and welcome to Honeywell's First Quarter 2020 earnings conference call. On the call with me today are Chairman and CEO, Darius Adamczyk and Senior Vice President and Chief Financial Officer, Greg Lewis. Also joining us today is Senior Vice President and Chief Supply Chain Officer, Torsten pills, who is here to participate in Q&A related to our supply chain. This call and webcast, including any non-GAAP reconciliations are available on our website at www.honeywell.com/investor.

Note that elements of this presentation contain forward-looking statements that are based on our best view of the world and of our businesses as we see them today. Those elements can change based on many factors. Including changing economic and business conditions and we ask that you interpret them in that light. Unless otherwise noted, the plans described herein are not final and may be modified or even abandoned at any time. No final decision will be taken with respect to such plans, without prior satisfaction of any applicable requirements with respect to informing, consulting or negotiating with employees or their representatives. We identify the principal risks and uncertainties that may affect our performance in our annual report on Form 10-K and other SEC filings. This morning, we will review our financial results for the first quarter of 2020 and share our views on the second quarter of 2020. As always, we'll leave time for your questions at the end. With that, I'll turn the call over to Chairman and CEO, Darius Adamczyk.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Mark, and good morning everyone. Before we turn to slides, I would like to make a few opening remarks. We're clearly holding this call during unprecedented times, the COVID-19 pandemic has widespread impacts on our communities from our families, friends and neighbors to our employees, customers and suppliers. At Honeywell, our number one priority is the health and safety of our employees, we are taking many precautions to preserve their well-being over 100,000 employees around the world. Results in very few infections across the company.

Each of our employees is demonstrating a strong commitment to our company, to our customers during these challenging times. I sincerely thank them for their strength, resilience encourage. I would also like to express my gratitude to the men and women on the front lines of this fight, the health-care workers are working every day to overcome this global health emergency. They are the heroes and we're doing everything we can to support them, we increased production of personal protective equipment and other critical supplies.

This morning, we'll discuss 6 key topics. First, we'll review our first quarter performance, a quarter during which we over delivered on our original EPS and segment margin commitments, despite a rapidly deteriorating environment. I am particularly proud of this outcome, even in the crisis we demonstrated that our investors can count on a reliable say do outcome

Second, we will discuss how we are working to keep our employees and the men and women and the front line safe and healthy.

Third, we'll discuss our outlook for the second quarter. The next few quarters are likely to be amongst the most unpredictable quarters we've ever experienced and our visibility is limited under the current circumstances. Accordingly, our outlook for the second quarter, we'll have less detail than unusual, but will provide a level of detail that is commensurate with our visibility in the current environment. We're also suspending our full year financial guidance until the economic environment stabilizes and we can once again provide a reliable forecast.

Fourth, we will provide an overview, our strong balance sheet and liquidity position which will take years of responsible balance sheet management.

Fifth, we will outline the decisive, expeditions actions we have already taken commenced through the crisis, protect shareholder value and emerged stronger than ever, cannot control the pandemic, but we can control how we're mitigating risk to our operations and supply chain, engaging with customers, managing costs and preserving liquidity. As you see, we are applying Honeywell's usual level of discipline and diligence to this unprecedented situation. We have already locked in plans, which we are executing, we are not searching for answers as the crisis continues to unfold. And finally, we'll provide an overview of some new opportunities that are well aligned to our portfolio.

Let's begin on slide 2. We delivered EPS and segment margin expansion above the high end of our original guidance in a rapidly deteriorated environment. Earnings per share for the first quarter was $2.21, up 15% year-over-year and segment margin expanded 140 basis points to 21.8%. The global spread of COVID-19 during the first quarter created operational constraints for Honeywell, our suppliers and our customers. In some cases, access to customer sites was restricted impacting our ability to complete deliveries and provide services.

COVID-19 and the OPEC+ dispute also demand weakness, particularly in our short cycle businesses and in the aerospace and oil and gas end markets. The combination of these effects resulted in organic sales decline of 4%. As you have come to expect from Honeywell, we responded quickly to changing conditions by implementing cost control measures, which combined of our productivity rigor and commercial excellence drove 140 basis points of segment margin expansion, 90 basis points above the high end of our first quarter guidance.

We also generated $800 million of free cash flow despite lower cash collections from customers at the end of the quarter due to the challenging macroeconomic conditions. We continue to implement a responsible and balanced capital deployment program during the first quarter. We deployed $2.7 billion of capital across share repurchases, dividends and high return CapEx investments to position our company for the future. This was a challenging first quarter due to the rapid escalation of the COVID-19 pandemic and the OPEC+ dispute, we're effectively -- but we effectively managed through the challenge to overdeliver on our profit commitments demonstrating our strong say do.

Let's turn to slide 3, to discuss our response to the pandemic. As the COVID-19 pandemic started to evolve, we acted quickly to ensure the safety of our employees as well as to aid in the frontline response to the crisis. We implemented several precautionary measures to keep our employees safe including travel restrictions for all employees and full-time work from home for nearly all of our non-manufacturing employees.

At Honeywell locations, where work cannot be performed remotely, such as manufacturing sites. We implemented measures to protect our employees including restricting visitors, enhancing site cleaning and sanitation regiments, providing hand sanitizers, staggering shifts and lunch breaks and putting safe distance practices in place where possible. Where social distancing isn't possible, we have also provided employees with mask. We have also implemented mandatory temperature screening at several locations and are putting capabilities in place to expand that practices needed.

We'll continue to comply with all local and national guidance from governments and help authorities. In addition, we announced that Honeywell will pay for coronavirus testing in treatment costs that are not covered by employees' insurance and will provide a full year of paid sick time upfront for US non-exempt employees. Finally, we announced a $10 million employee relief fund to help employees in financial distress.

We also recognize the urgency to keep medical professionals safe, we have quickly ramped up production of our personal protective equipment to address unprecedented demand. We recently announced that we're adding manufacturing capabilities to our existing sites in Smithfield, Rhode Island and Phoenix, Arizona to produce millions of N95 mask's to help support the urgent need for critical safety equipment. The additional capacity at these 2 facilities is expected to create more than 1,000 new jobs and produce more than 20 million N95 disposable mask's monthly to support the US government's efforts to combat the virus.

Our Smithfield, Rhode Island facility is already producing N95 Masks, we installed a production line in only 5 weeks, a process that normally takes 9 months to complete. Honeywell is supporting the fight against COVID-19, other ways as well, including increasing production of our other critical personal protective equipment such as safety eyewear and face shields, increasing production of sensors used in ventilators and providing testing services to ventilator manufacturers.

Finally, we recently announced that we will shift manufacturing operations at 2 chemical manufacturing sites in the US, in Germany, to produce and donate hand sanitizer to government agencies in response to shortages created by the with COVID-19 pandemic. These sites which manufacture high purity solutions for laboratory research and testing applications will produce hand sanitizers over the next few months for government agencies to distribute to entities in need. These are certainly challenging times and we're proud of our role and the many actions we have taken to produce essential personal protective equipment to keep the heroes on the front-line, safes.

Now let me turn it over to Greg on Slide 4 to discuss our first quarter results, more detail as we, as well as to provide our views on the second quarter and the balance sheet.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius and good morning everyone. In the first quarter organic sales declined by 4% as the effects of the pandemic spread across the globe creating supply chain challenges and restricting access to customer sites which constrained our ability to deliver, particularly in the last 2 to 3 weeks of the month.

Aerospace sales were up 1% on an organic basis as demand for key US Department of Defense Programs and guidance and navigation systems in defense and space was partially offset by the steep reduction to flight hours and a slowdown in air transport OE build rates, primarily from our previously communicated lowered 737 MAX deliveries to Boeing in commercial aerospace.

Safety and Productivity Solutions sales were down 9% organically, increased demand for respiratory personal protective equipment was more than offset by weakness in the short-cycle part of the portfolio. Intelligrated sales were down about 12% due to the timing of several major systems projects as expected. As a reminder, Intelligrated organic growth in the first quarter of last year was approximately 50% up, due to strong major systems backlog conversion aftermarket services and increased demand for voice solutions, which create a very tough comp for this quarter.

Intelligrated backlog remains robust. Approximately, up 40% year-over-year and as we discussed in our last call, we expect growth to re-accelerate in the second quarter. Honeywell Building Technologies sales were down 6% on an organic basis, primarily driven by softness in-building solutions projects and lower short cycle volumes in security and building management products. Finally, Performance Materials and Technologies, down 5% was negatively affected by the sharp decline in oil prices stemming from the OPEC+ dispute and the COVID-19 related disruptions with HPS down 6% and UOP, down 2%. Continue the legal HFC imports into Europe and lower automotive refrigerant volumes in Advanced Materials also contributed to the sales decline.

Despite these challenges, our productivity rigor combined with commercial excellence and swift cost actions drove segment margin expansion of 140 basis points, well above our original guidance of 20 to 50 basis points. We delivered earnings per share of $2.21, up 15% and well above the high end of our original guidance range of $2.02 to $2.07.

Segment profit expansion drove $0.04 of earnings growth while a lower adjusted effective tax rate, primarily due to new India tax legislation drove $0.13 of EPS improvement compared to last year. Even without the favorable tax impact, the first quarter EPS was $0.01 above the high end of our guidance and up 8% year-over-year.

We generated $800 million of free cash flow, down 31% year-over-year primarily driven by lower sales and slower collections, particularly in late March. We continue to execute our capital deployment plans in the first quarter, we deployed over $600 million to dividends and $1.9 billion of share repurchases substantially completing our full-year 2020 share repurchase commitment.

We also invested over $100 million in capital expenditures in the quarter, including investments that will enable us to produce millions more N95 masks to help the coronavirus relief effort. Overall, this was a very challenging quarter, but we continue to execute and achieved or over delivered on our segment profit, margin expansion and EPS commitments.

Now let's turn to slide 5, to discuss our operations. Our portfolio is highly aligned to guidelines for essential and critical businesses around the world. Our teams have been working tirelessly to ensure that we are able to provide equipment and services to our customers in critical end markets globally in compliance with government safety regulations.

The spread of COVID-19 has created operational challenges for Honeywell, our suppliers and our customers as governments and companies implement measures to slow the spread of the pandemic and keep employees safe. These challenges included temporary site closures, staffing shortages, in ability to access customer sites for service and project engineers and transportation and logistics disruptions. The operational constraints change daily. However, we have implemented rigorous business continuity processes to ensure they are proactively addressed and minimized to the extent possible. Though operational disruptions have caused headwinds, our Integrated Supply Chain team's efforts under Torsten's leadership have been able to keep us running.

After the outbreak in China, we set up a taxable operation center in January to monitor and manage global supply risk and establishes processes to identify and assist suppliers in financial distress. We continue to monitor all suppliers to ensure they remain operational and we provide support to help them reopen when they experienced temporary closures. Today, well over 90% of our suppliers are operational. Our logistics team has been proactively securing transportation and freight modes to ensure transportation availability, amid supply and demand imbalances. As it stands today, over 90% of our sites, are operational globally. Approximately 15% of our sites are currently experiencing staffing constraints in select regions around the world, including sites in Mexico, Europe, and Asia-Pac where governments have mandated up to 25% to 75% reductions in staffing.

We are pleased with our progress in responding to these operational constraints and mitigating those impacts, we experience new headwinds every day, but we continue to monitor our supply chain, we're closely with our suppliers and respond swiftly when new challenges arise. Because of these actions, our global operations are running with limited but unpredictable disruptions or interruptions and these are some of the dynamics that are contributing to our challenge on predictability of our short-term financial outlook.

Now let's turn to slide 6, and we'll discuss our segment outlook for the second quarter. As Darius said previously, the next few quarters are likely to be among the most unpredictable we have ever experienced and our visibility has limits under the current circumstances. Accordingly, we are suspending providing full financial guidance until the economic environment stabilizes and we can once again give reliable and comprehensive forecasts.

We believe it is important that we provide a level of precision that is commensurate with our ability to forecast in the current environment and therefore, you will see a different set of inputs versus our normal guidance. Starting with Aerospace, we expect more than a 50% decrease in global air transport flight hours and more than a 40% decrease in global business aviation flight hours in the second quarter based on industry sources, which will significantly impact our commercial aftermarket businesses.

In addition, our commercial original equipment business will be impacted by the ongoing 737 MAX production delays, OEM furloughs and temporary shutdowns and lower business jet demand due to the economic slowdown. However, government defense budgets remain intact and we expect continued growth in defense and space, though this will be more than offset by the broader end market challenges and significant demand reduction in the commercial aerospace segment.

As a result, we expect Aerospace sales to be down more than 25% compared to the second quarter of 2019. Moving to PMT, the dramatic volatility and decline in oil prices related to the OPEC+ dispute, coupled with the COVID-19 related supply chain disruptions has created a challenging environment. We are encouraged by the OPEC+ production cut agreement and we hope for, even broader action. However, we need to see a sustained increase in demand to see a more meaningful impact in the marketplace. As we've said in the past, oil price volatility and sustained pressure on prices often leads to project delays and customer CapEx and OpEx budget cuts, which is what we are seeing today.

We expect a steep decline in refining production in the second quarter and continued weakness in gas processing. The reduction of customer CapEx and OpEx budgets will create headwinds for our products businesses and process Solutions in UOP with declines in field services, equipment and catalyst shipments. Additionally, we anticipate new projects, were pushed to the right putting pressure on UOP licensing and engineering volumes in the near term. As we have discussed in the last two earnings calls, we enter 2020 with a healthy backlog of global mega projects and process solutions and we do expect to burn those down over the next few quarters. Although we have not received any long cycle cancellations, we are expecting the orders to decline significantly in the second quarter.

With Advanced Materials, automotive plant closures will drive lower refrigerant volumes and a projected slowdown in global construction will further pressure sales however, in specialty products, we are encouraged by strong demand for our healthcare packaging, armor and research chemical products. Altogether we expect PMT sales to be down more than 15% compared to the second quarter of 2019.

In HBT, we see the impact of COVID-19 pandemic as potentially shorter term in nature, in the current environment, non-residential projects in multiple verticals have paused and customers are deferring non-essential spending impacting the timing of long cycle building solutions projects and delaying purchase of security, building management and fire products.

Lower building occupancy and temporary disruption to site access are driving delayed timing of certain building solutions services. However, we believe these are largest short term timing effects and we continue to see the underlying demand particularly in fire and security products and our services where orders grew in the first quarter. So, building Technologies may begin to stabilize as businesses begin to reopen. We expect HBT sales to be down more than 10% compared to the second quarter of 2019.

Finally in SPS, the surgeon e-commerce as government enacts social distancing requirements has created more demand for our warehouse automation business and supports continued conversion of our robust Intelligrated backlog. In the second quarter, we will see growth in the major systems projects that we booked last year, our Intelligrated backlog remains strong, up approximately 40% year-over-year and we expect this business to perform well for the remainder of the year.

However, the macro conditions are resulting in headwinds in our short cycle SPS businesses including productivity products, gas sensing and retail. Weakness in aerospace heavy equipment and automotive end markets is also resulting in headwinds in the sensing and IoT business, which will partially be offset by increased demand for sensors in medical ventilators and respiratory equipment.

Finally, we are of course seeing record level demand for respiratory masks and other personal protective equipment and we expect that demand to continue for the foreseeable future. Mass production at our Smithfield, Rhode Island facility is already online and our Phoenix facility is expected to come online in the second quarter.

PPE, orders were up triple digits in the first quarter, with strength in respiratory, head, eye, face, gloves and clothing categories. Our personal protective equipment backlog is now up triple digits. In the second, in the second quarter, however, we expect the macro and short cycle headwinds to more than offset the growth in PPE and Intelligrated. We expect SPS sales to be down more than 5% compared to the second quarter of 2019. So while our diverse portfolio is resilient, the combined impacts of the COVID-19 pandemic and the OPEC+ dispute are meaningful across the global economy. While we have a rigorous MOS in place to manage our operational risks, the continuity of our operations, as well as those of our customers and suppliers continues to change daily. As the impacts of the health crisis continue to unfold and evolve, as a result, we expect a very challenging second quarter with sales expected to be down more than 15% for the company versus the prior year.

Now let's move on to Slide 7 and discuss our balance sheet and liquidity. Our strong balance sheet provides a stable foundation as well as opportunity for our company during challenging times such as these. We have maintained a premium credit reading for over 25 years, which has been a long-term competitive advantage for us, especially during difficult times like the downturn in 2008 and 2009 and again today. It reflects many years a responsible capital management, good stewardship of our pension plans and an emphasis on prudent leverage and significant liquidity.

We exit 2019, in an incredibly strong position and we took additional actions during the first quarter to further bolster our financial flexibility as a precaution in these unpredictable times. As discussed in our outlook call, we further de-risked our pension plan by increasing the plans asset allocation to 60% fixed income in the first quarter, which has proved to be prudent as our pension plan remains overfunded at the end of the quarter and requires no additional funding. Even with the tremendous volatility in the capital markets.

We also refinanced the billion-dollar, euros of February maturities with the euro bond offering maturing in 2024 and 2032. We have no remaining bond maturities coming due in 2020 and only 800 million of bond maturities coming due within the next year. Most recently, we announced a $6 billion 2-year delayed-draw term loan agreement, which combined with our pre-existing $5.5 billion of undrawn revolving credit facilities brings our total undrawn sources of liquidity to $11.5 billion.

As of the end of the first quarter, we had 8.8 billion of cash and short-term investments on the balance sheet and a net debt to EBITDA ratio well below 1. Altogether, we have over $20 billion of cash, short-term investments, an undrawn sources of liquidity readily available compared to only $800 million of long-term debt maturities and $3.5 billion of commercial paper coming due within the next year. And as you can see on this slide, our balance sheet and liquidity profile is significantly stronger than it was heading into the 2008-2009 downturn when we were more levered, had less than $6 billion of liquidity undrawn and our pension was severely underfunded. We will focus on preservation of liquidity during the second quarter and expect to enter the 3rd quarter with significant capital deployment options should we have greater clarity on economic conditions.

With that, I'd like to turn the call back over to Darius.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Greg. Let's turn to slide 8. As the COVID-19 pandemic started to spread, we immediately acted to maintain the continue of our operations and keep serving our customers. These actions in addition to Honeywell's diversified portfolio, strong balance sheet from history of discipline and resilience in uncertain times demonstrate our ability to manage through a difficult situation. We have already discussed our efforts within the supply chain and balance sheet this morning, so let me walk you through that our 3 other key priorities. Starting with sales generation, we rapidly redeployed around 1,000 of our sellers to align to areas we're seeing market demand particularly on our healthcare, e-commerce, supply chain, remote factory operations, cyber security and PP&E offerings.

We modified the sales incentive plans for our 6500 sellers ensuring our sales teams have the proper motivation to find the areas of growth in our target markets. Also to ensure our sales managers ensures to have the skills, they need and best practices to virtually connect with our customers. We develop playbooks containing sales best practices and lessons learned from our China team, were the first to implement a virtual selling techniques.

While not easy, our sellers have embraced the challenge and opportunity of maintaining a high level of communication for our customers. One of our HBT employees, even turned a room in his house into live demo center for customers and he used it to launch a product to 40 of our top European partners via video.

We're also in the process of launching e-commerce websites to enable our transactional customers to receive product information and place orders quickly and efficiently. For example, our research chemicals business launched a new website to enable their customers performing important lab work associated with COVID-19 pandemic to quickly and easily replenish our laboratory supplies. Our sales and demand generation actions are being reinforced by rigorous weekly review process led by me personally together with Jeff Kimbell, our Chief Commercial Officer.

Demand generation remains a priority even in these difficult conditions. Let's move next to our cost control actions. Our focus on maintaining our employee base, we're also positioned to come for long-term performance post-crisis. We have rapidly implement a series of measures to conserve cash and reduce cost, which will help mitigate the potential need for more drastic actions later. It will give us more flexibility to respond to prolonged downturn or sudden disruptions in our end markets.

Our cost reduction efforts will reduce cost by at least $1.1 billion to $1.3 billion in 2020 and will be more heavily weighted in the third and fourth quarters of the year. This includes approximately $200 million of benefits from prior year reposition. We have eliminated or sharply reduced discretionary expenses, limited hiring and cancelled merit increases on a global basis for all levels of the company. Additionally, our businesses have in some locations initiated a rotating scheduled reduced work weeks or eliminated workweeks.

All executives up to and including senior staff and the Board of Directors have also reduced base pay this year and eliminate or substantially lower incentive payouts in 2020. We are also taking proactive steps to preserve jobs at our manufacturing sites including shorten or stagnant work schedules to match production volumes of demand. The expeditious completions of Phase I cost plan previously described is enabling us to complete a Phase II cost action plan which will -- should be developed within 30 days. We believe that these cost controls will enable Honeywell to respond to deteriorating market and economic condition as the full impact of the COVID-19 pandemic becomes apparent.

Finally, let's discuss how optimizing working capital domestic demand in the current environment. We have a solid governance model around cash management and working capital and we executed a comprehensive risk, risk assessment of customers and suppliers to preserve our strong cash position.

We reviewed the policies for the highest risk and top revenue customers to make sure we have the appropriate parameters in place to protect our accounts receivable and we implement tighter exception criteria, enhanced Executive leadership team review and approval. Additionally, we also set up processes to identify and access high risk suppliers, we trained and mobilized over 600 procurement professionals to contact suppliers and take the financial temperature. Many suppliers have already received essential help to keep their doors open and the products and services flowing to Honeywell's factories. Having agile supply chain processes is more important than ever to manage our expenses and cash investments. Therefore we convinced, our sales inventory and operations planning process from a traditional market cycle to a weekly cycle.

Combining this with sales leading indicators, you're sensing demand trends and realigning our inventory and production schedules faster than ever. Together, the actions we have implemented across the company have position Honeywell to effectively manage through uncertain times and we're confident on our continued execution resilience.

Let's turn to slide 9 to discuss our repositioning plan in more detail. You would expect from us, we are accelerating plans for permanent cost reductions to ensure a cost base reflects the macro-economic environment, particularly in Aerospace in PMT where we see the end market challenges we have discussed this morning. We have ample capacity for repositioning in the second quarter and are planning for a net reposition of $175 million to $275 million. Our actions to shares will provide cost reduction plans into 2021 and are proactively preparing a Phase II plan which we'll likely deploy as we assess market conditions.

Now looking at slide 10. Let me take a moment to share some of the emerging areas of demand that we are adjusting for our customers. In the healthcare space, we see opportunities across multiple businesses, we are increasing production of sensors for medical ventilators in our sensing and IoT business. Our research chemicals business is supporting scientists around the world in the research, development and production of COVID-19 test kits, therapies and vaccines, but prioritizing in ramping production of high quality analytical products, that meet their application needs.

And we are offering expedited support services to our pharmaceutical and biopharmaceutical customers in our (inaudible) business to help slow faster healthcare packaging decisions for COVID-19 oral solid medicine. We have already mentioned that many actions we're taking to meet increased demands for personal protective equipment, including MAX, eyewear and face shields. In both, building Technologies and process Solutions, we see strong demand for cyber security and the rents we more access and monitoring for buildings and plants as people inclusive work from remote locations. Also in HBT, we have a suite of healthy building capabilities ready to deploy for customers are focused on the health and well-being of the building's occupants. In SPS, there is strong demand for warehouse automation in supply chain analytics-driven by surging e-commerce.

And finally, in Aerospace. As passengers return to normal flying behaviors that we will increase focus on passenger health and safety which dovetails nicely with our leadership in environmental control systems for aircraft. We are also offering creative solutions to airlines in airports to protect passengers and to restore confidence in flying. So, although the macro environment is creating challenges, it is also creating new customer needs that we're well equipped, equipped to address.

With that let's wrap up on slide 11. This quarter represents the first of what will be some challenging times ahead. We exceeded our segment profit, segment margin and earnings commitment, EPS growth of 15% despite the substantial challenges we faced. We remain cautious as the magnitude and final impact of COVID-19 pandemic and OPEC+ dispute is unknown. As a result, there is significant uncertainty around commercial aerospace, oil and gas in short cycle demand which we expect will meaningfully impact the second quarter.

However, we have a diversified portfolio and significant balance sheet strength to provide resilience in these uncertain times. We acted quickly and prudently to ensure the health and safety of our employees continuing to serve our customers and protecting our shareholders in response to the COVID-19 pandemic. We took decisive actions to reduce our cost base, optimize working capital and further bolster our strong balance sheet and liquidity.

We continue to actively monitor to COVID-19 impact on our operations and we're confident in our ability to manage through the market volatility. We're playing a critical role in keeping medical professionals safe through expanded production of N95 masks, other PPE, sensor for medical equipment in ventilators and new production of hand sanitizer.

Despite the challenges, challenging times, we remain committed to our strategic initiatives in the Honeywell Connected Enterprise, supply chain transformation and Honeywell Digital and we continue investing in our future through breakthrough initiatives, new product introductions, next-generation innovation across our entire portfolio.

I am proud of everyone at Honeywell who is working hard to adapt and deliver this challenging environment. I am confident we'll emerge from this crisis even stronger than ever.

With that, Mark. Let's move to Q&A.

Mark Bendza {BIO 21178179 <GO>}

Thank you, Darius. Darius, Greg and Torsten are now available to answer your questions. Savannah, please open the line for Q&A.

Questions And Answers

Operator

And the floor is now open for questions. (Operator Instructions). Our first question will come from Steve Tusa with JPMorgan. Please go ahead.

Q - Stephen Tusa

Hey guys, good morning.

A - Mark Bendza {BIO 21178179 <GO>}

Good morning Steve.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Stephen Tusa

So, just on kind of the second quarter color, I appreciate that. You guys have a gross margin of around kind of mid '30s or whatever it is, should we expect because of the significant kind of drop off here that and a little bit more of a back half weighting on these, on these cost saves but you decrement that kind of a little bit more than that on a headline kind of segment profit basis in 2Q, just trying to kind of get an idea of the rough deleveraging you're kind of expecting in the business, is there anything in the mix. You know that would move that around. Just curious on that front. And then would you expect that that is kind of the low point of the year, given that you know this, this should kind of all this economic stuff should begin to kind of heal a bit. And then the cost saves come in.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, Steve, couple of that, I mean in terms of Q2 yes, I mean I think we expect our worst decrementals for the year in Q2. I mean, obviously we're in the middle of some cost actions we're doing that, we expect Q2 to be the most depressed from a GDP perspective, sort of underlying assumptions here and I emphasize the word assumptions, is that GDP Q2 will be the worst, improve in Q3 and improve in Q4.

So obviously, our margins will kind of follow that trend, Q2 will be the bottom we expect some level of improvement in Q3 and further in Q4, that's sort of the overall trends. We can give a level of precision on this because obviously some of the cost actions timing of that, that's still a little bit that totally within our control and but we're taking aggressive actions, not just with the Phase 1 that was discussed, but we're also looking in Phase II which is going to be deployed, well, finalized and deploy them in the next 60 days for sure.

Q - Stephen Tusa

Got it. So I guess you're not really kind of commenting on something you could hold around that, maybe a little bit higher than that gross margin rate, just kind of help frame us -- frame that for us.

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, I mean clearly our Q2 decrementals will be worse. I mean that's and then they'll start improving for that. I don't know that I can give you any more precision than that, I mean it's. Okay. Otherwise would essentially be providing guidance.

Q - Stephen Tusa

Right. And then just on the buyback, you guys talked about kind of completing your 2020 program, but obviously your balance sheet is in good shape. I mean, I don't know where you bought back the stock this quarter, but are you, do you have kind of capacity and are you willing that as you get better visibility on the second half, that you could be opportunistic in the event you know things pull back again?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I mean, obviously we have the liquidity and cash is not a concern for us. I mean, given our position, balance sheet, the term loan we took on. So I mean we we have a lot of optionality in the second half. I mean I wouldn't expect much in the second quarter. I mean, I think this is the time to kind of assess the situation and see what's happening, see what's going on in the medical arena, see if the markets are turning around. So, I wouldn't expect much here in the Q2 timeframe, but we have a lot of optionality in the second half to potentially get back in the market. But we'll see, I think that we're going to kind of hold the, tap on the brakes here in Q2, see what happens. Implement our, both our growth plans and I emphasize that growth plans cause I think that there are some opportunities even in this crisis.

Obviously also execute the cost plans as well because that's what, that's what we have to do in this environment and deal with reality and then we'll look at capital allocation as it relates to buybacks and so on as we move into Q3 and beyond.

Q - Stephen Tusa

Got it. Sorry, one more way to go about this. For the year, are the cost saves enough to kind of hold the decrementals in and around your gross margin? Is that kind of what is, what kind of a cost saves are aimed to do?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I think it's too early to tell, Steve. Because, we still haven't fully quantified the Phase II impact.

A - Greg Lewis {BIO 20594853 <GO>}

And we don't want, we don't know what the revenue reduction is going to be.

A - Darius Adamczyk {BIO 18702500 <GO>}

So, the problem giving you numbers here is that we're operating with 2 or 3 different variables, all of which could move dramatically, so then you get down to guess and as Honeywell, we don't guess. I mean when we see something we do it, which was evidenced by our Q1 delivery of segment profit.

Q - Stephen Tusa

Okay, appreciate it. I had to try. Thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, Thanks, Steve.

Operator

Our next question will come from Scott Davis with Melius Research.

Q - Scott Davis {BIO 2393277 <GO>}

Good morning, guys.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning Scott.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning Scott.

Q - Scott Davis {BIO 2393277 <GO>}

Hope everybody's surviving okay. Good to hear your voice atleast, Darius.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hanging in there.

Q - Scott Davis {BIO 2393277 <GO>}

Anways, I guess just a little bit of follow-up on the balance sheet question from Steve, I mean you're in a great position and buybacks is one element, but M&A is another, is there an active pipeline you can continue to work, is it just too impossible to, you can think about doing deals right now or is there something maybe for later in the year. Just, just some thoughts on that.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, well, I mean as you can imagine, a lot of the M&A activity is kind of a little bit of on pause, in I think as being a buyer, that's probably a good thing because I don't want to necessarily be buying off for 2019 comps. I don't think that makes a lot of sense. But given our balance sheet, which is in a great position, yeah, I think that this is an area which could be an opportunity in the second half of the year. I think the valuation should and will change, and that's pretty obvious but whenever you have a sudden change in economic conditions, like we do now, which really flipped. I mean they literally flip from the beginning of March, the end of March, we're sitting in a dramatic position, it takes a little bit of time of reality for dollars to sink in, in terms of with the valuation should be, I mean everybody still wants to value their business of 2019 figures and that's just isn't realistic anymore and you kind of have to look forward rather than look backward.

Q - Scott Davis {BIO 2393277 <GO>}

Could not agree more, just a point of clarification, you've got this $1.1 billion to $1.3 billion cost out and it looks like it's more of kind of a shorter-term stuff. And then you have this, $375 million to 500 million repositioning charges, should we think about those as kind of more short-term and then the repositioning of the structural stuff, is there any way to reconcile as part of that cost out of the $1.1billion to $1.3 billion.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, let me give you a little color on that, which is, don't think of that as mostly short term. Think about that $1.1billion to $1.3 billlion, 30% to 40% it is roughly short term, but the rest of it is permanent so that's, it's not, it's not all just short-term stuff. And I think you should think about the Phase II actions. It's not all permanent but majority permanent.

Q - Scott Davis {BIO 2393277 <GO>}

Super helpful. Okay. Good luck, guys. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question will come from Andrew Obin with Bank of America. Please go ahead.

Q - Andrew Obin {BIO 6337802 <GO>}

Hi yes, good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Andrew.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Andrew.

Q - Andrew Obin {BIO 6337802 <GO>}

Just, just a question on Aerospace, 25% decline in second quarter. I think quite a bit better than a lot of the peers that have guided.

A - Greg Lewis {BIO 20594853 <GO>}

More than just, Andrew more than 25% that's not.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, it's not at 25%, It's more than 25%.

Q - Andrew Obin {BIO 6337802 <GO>}

More than 25%, So I'm just trying to figure, I think your peers have sort of been guiding more '30s '40s, '50s, so just any color between the pieces within Aerospace, what's happening into the second quarter and I know you have provided some. And also, how does it work out sequentially through the year, is second quarter the bottom or is it going to get worse.

A - Greg Lewis {BIO 20594853 <GO>}

So what you're seeing for us of course is that we've got 40% roughly of our Aerospace business is Defense and Space, and that's continuing to grow, they grew 7% in the first quarter and we see a nice growth trajectory in Q2 as well, and it really is in the commercial, in the commercial side of the business that we're going to see a substantial acceleration of that, of that growth rate coming down. So, and again, relative to the back half of the year, as Darius described, we expect the second quarter to be the worst it's going to get, but to be honest, we don't really know. And that's again part of the reason why we're not giving full year guidance, we're telling you the best we can see here out in the, in the very short term 90 days and all of the aspects of what happens with the health crisis, when do people go back and fly again, that is not something that is very clear to anyone, including us.

Q - Andrew Obin {BIO 6337802 <GO>}

I'll just follow up on free cash flow. Any big one-time items that kept cash flow down, year-over-year and ability to release working capital down the line, thank you very much.

A - Greg Lewis {BIO 20594853 <GO>}

It was mostly it was mostly receivables, our collections were down year-on-year, again as particularly as we got down to the last few weeks of March, they slowed dramatically. You can imagine there are some places where people weren't there to actually be able to execute payments and other customers are beginning to get a little bit skittish with, with their payments as well. So, that's really the major story for the quarter and we absolutely are going to do all the things, Darius described on working capital including readjusting our supply plans to these new realities from, from the standpoint of our inventory plan and that's going on as we speak.

Q - Andrew Obin {BIO 6337802 <GO>}

Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Andrew.

Operator

Next, we'll hear from Julian Mitchell with Barclays. Go ahead.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Julian Mitchell {BIO 21229700 <GO>}

Good morning. Maybe, just the first question around the SPS segment. So I think it's the one segment where it looks like you're guiding for a narrower decline, perhaps in the second quarter year-on-year versus what we've seen in the first quarter. I just wanted to check that's correct and then within that, understood Intelligrated is a swing factor, going from minus to plus year-on-year in Q2. Maybe help us understand your assumptions about the rest of SPS in terms of safety and the rest of Productivity Solutions and whether what you're seeing already in April does tally up with that down over 5% guide.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I mean you know in SPS. I mean you think should think about a couple of businesses accelerating for a couple of the next couple of quarters, one being Intelligrated. I mean our backlog there is tremendous and continues to grow. So, that's, we expect to see growth in calibrator obviously demand on e-commerce is going to become more acute not less acute and we have an orders positions and backlog and even our front-log that looks extraordinarily appealing. So, that's a business. Obviously, we've captured a tremendous amount of business in PP&E that's and that business is going to accelerate more or less every single month as we move forward through the year. So, we expect to see growth.

And then modest, the modest decline in some of the other businesses although sensing and IoT will see growth in some of the health care oriented sensors there are other segments that it's exposed to like aerospace that are obviously going to be in decline. So, that's going to be our productivity products business, it kind of low single digit kind of decline is kind of what we're expecting, some of those segments are going to do pretty well. Transportation, logistics and healthcare, retail is not. So, that's kind of how we see that one. So overall, I mean, we do expect SPS for the year to be our healthiest and strongest SBG and I think it's, we could even see growth in SPG even this year.

Q - Julian Mitchell {BIO 21229700 <GO>}

Very helpful, thank you. And my second question, maybe just a broader one, not so much Q2 but a broader one around the P&C segment, that segment managed to ride the '15, '16 energy downturn remarkably well. Just wondered if you saw more pressure may be in this downturn versus that one because of the aspect around gasoline consumption being down in different markets and maybe more pressure as well in process solutions because of extra mid and downstream CapEx cuts and how much of the fixed cost out. May me something from Torsten is on that, can help in PMT offset this severe revenue drop.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes well actually, PMT is going to be challenge for the segments that are oil and gas oriented and obviously we have exposure in both UOP and NHPS. I remember the ' 15, '16 because I ran that business at that time. It wasn't that much fun. But, I do worry about a couple of factors here. The first one is, there is just no demand. I mean if you think about what comes out of refineries, whether it's jet fuel or whether it's gasoline. So, the world needs to go back to work and start functioning again, because no one is flying, very few countries in the world are reopening. So, there is very little gasoline and fuel consumption, price of oil is highly depressed if you look at, if I remember correctly, the lowest price of oil that I that I seem to recall back in the '15, '16 timeframe was about $27, $28 bucks a barrel, we're substantially south of that.

So, it's going to be a challenging time for PMT and we're going to be taking some, we already are taking and will be taking even more cost reductions to align with the demand and you even heard some recent announcements as early as today, right with Exxon and Chevron further cutting back CapEx. So, we have to, we have to adjusted the reality of today and focus on a lot of our services and a lot of our digital business to drive growth and the segments that are still growing because we do participate in the Pharma segment, we have some play in food and beverage, Pharmaceuticals and so on. So, it's not all doom and gloom. But clearly it's going to be a challenge time for PMT for a portion of that business, not the entire business and we have to align that reality and adjust our cost base to what we anticipate will be.

Q - Julian Mitchell {BIO 21229700 <GO>}

Great. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Next, we'll hear from Jeff Sprague with Vertical Research. Please go ahead.

Q - Jeff Sprague {BIO 1494958 <GO>}

Hey, thank you. Good morning, everyone. Just a couple of quick ones from me if I could. First just back on the, on the cost reduction actions. The $375 million to $500 million of restructuring actions is the same figure that you used back in January. But, now we're looking at this additional $1.1 billion to $1.3 billion of cost, of which 60% to 70% is structural. So, it would seem to me that that does require a heavier lift on actual restructuring spend.

So could you just kind of line that up for me and then provide a little bit more color on what the Phase II might actually be.

A - Greg Lewis {BIO 20594853 <GO>}

Sure. So, just a couple of things. Number one, the $1.1billion to $1.3 billion, about $200 million of that is carry over restructuring from the prior year. So, it's not a 100% incremental. And you're right, I mean we guided a pretty sizable repositioning capacity as we always do, because we're always building pipeline around repositioning that's been one of the things that's continue to feed our productivity delivery over many, many years. And so what you're seeing here is, we just accelerated a substantial amount of that into the first, the first quarter and the second quarter, mainly to drive direct and indirect cost reductions to come back this situation. So, that capacity has always been there, to deal with the pipeline as it gets created we've just now deployed it or about to deploy it into some very specific things around direct and indirect cost reductions in the near term.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. And then maybe just one other thing to add to that is a portion of that cost saving is also in indirect costs. So, as we think about 2021 obviously, as you reduce your indirect cost that doesn't require really much of any restructuring. So, we don't anticipate going back to 2019 indirect spending levels in 2021, that's probably not realistic. So, part of that savings that we'll see is going to less grow in 2021, it's going to be someplace between what we're going to come back in 2020 and what it was in 2019. So, part of that is going to be a carryover.

Q - Jeff Sprague {BIO 1494958 <GO>}

And when you think about this Phase II, is this things that you had really already on the shelf, Torsten was working on and this is also, it's just a significant acceleration or you this reflect kind of a new broader reevaluation of just your cost structure in the current situation.

A - Darius Adamczyk {BIO 18702500 <GO>}

No, I mean, look, we wanted to do back all the way in the March timeframe is react quickly and decisively because the world really changed, the month of March. So, our Phase 1 plan was things that we could do very quickly, very decisively some, moving up some restructuring, some of the reduced work weeks, there were down, paid reductions all those kinds of things. The Phase II stuff is because we don't think that things like aerospace are going to return to normal next year. So, I don't know if it's a 2-year window or 3-year window. You've heard others applying on that, but I don't think that that's a short-term. So, particularly in aerospace in PMT, we're going to have to align our cost base to the realities of what we're likely to experience in 2021 and hopefully not beyond, but maybe beyond.

So, phase II results say a further realization of what the markets may look like in the future in our realignment of cost base, more of a permanent realignment to adjusted to that reality.

Q - Jeff Sprague {BIO 1494958 <GO>}

Let's do some another real quick follow-up just on aero, you gave us the flight hour numbers. I mean, typically we think of some kind of multiplier to that. Can you maybe give us a little color, I can just what the last 6 weeks have looked like in aftermarket. I would assume it's tracking down more than those flight hour declines, but hard to tell obviously, from my seat.

A - Greg Lewis {BIO 20594853 <GO>}

Yes, I would say Jeff from an aftermarket perspective, it's definitely accelerated and in the first, I would say the last six weeks for sure I mean, the end of March In particular, started to see some pretty substantial slowdown. So, when we think about it in the second quarter, we're going to have -- we're going to have some substantial reductions probably greater than the flight hour reductions that I mentioned earlier in the discussion, so probably greater than 50% types of aftermarket down in and, in the ATR segment in particular.

Q - Jeff Sprague {BIO 1494958 <GO>}

All right, thanks for the color, best of luck.

Operator

Next we'll hear from Nigel Coe with Wolfe Research. Please go ahead.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks, good morning, [ph]couple of ground already. Appreciate the color. I think this is a question for Greg. But, this is strategic as well but obviously you've got a fair amount of exposure to fairly distressed customers, airlines, commercial aero customers', refineries, etc. So, how are you thinking about flexibility, credit risk and also pricing, are you seeing significant concessions on pricing, or request for pricing concessions and then how you deal with that. Thanks.

A - Greg Lewis {BIO 20594853 <GO>}

Yes. So, I can tell you that we are in active dialog with our customer base in particularly in those two segments, you mentioned, because they are, they are hurting so there, customers are coming back to us and and talking with us about ways in which we can work together to ensure that they are able to navigate through this environment. And so we're, we're going through what you would expect a disciplined company to do. We're doing, not only direct dialog with some of those larger customers and, but we're also doing a substantially deeper credit risk assessment on our whole portfolio and in cases where we need to do things like pay before shipments or require cash before orders are taken, we're doing it, but we've got a, that's a nuanced strategy because you've got to be considered, consideration about the strategic customers that you're dealing with.

So you, that's, it's an ongoing activity, I will tell you that it's got the senior most leadership attention these are not decisions that are being taken down in low levels of the organization. Each of the SBG, Presidents and CFOs and Darius and myself are having direct dialog on some of these larger customers in particular. So, it's going to be a challenge, there is no doubt about it. I don't think we've seen the impact in the market yet of what could happen, from solvency risk standpoint and I think that's yet to play out, but we're, we're taking appropriate actions as you would expect us to go do that, to manage through that.

Q - Nigel Coe {BIO 3818998 <GO>}

That's great. And then a follow-on to that, a lot of time to pull the end guidance some of the opined on free cash flow and obviously the biggest into free cash flow was earnings, but (inaudible) described some of the levers, you're pulling on working capital. Some initiatives to maybe drive free cash flow conversion higher over the balance of this year.

A - Greg Lewis {BIO 20594853 <GO>}

Yes, I mean, the two biggest areas we're focusing on. As you can imagine, is inventory and receivables. So, we've got full court press on with our receivables teams and the SBG's as I mentioned to make sure that our collections activities are robust. And then, Torsten and his team as Darius highlighted have instituted a weekly executive sign up all the way to the Honeywell level and that's going to be a big focus for us and I'll let maybe Torsten say a few words about what we're doing there.

A - Torsten Pilz {BIO 20687624 <GO>}

Yes, I mean the main focus area is to make sure that we follow demand very, very closely and be very reactive and fast in our actions. and I think that's the, that's the main change that we, that we instituted over the last couple of weeks.

A - Darius Adamczyk {BIO 18702500 <GO>}

One other thing. Nigel, though I will tell you though that we are not planning on cutting growth CapEx, we're in a strong cash position, those projects are high return projects, I'm not, I'm not planning on sacrificing the future just to cut back on CapEx and I, that's probably something that we're going to continue to fund.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay thanks a lot guys. Good luck.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

A - Torsten Pilz {BIO 20687624 <GO>}

Thank you.

Operator

And next we'll hear from Deane Dray with RBC Capital Markets. Please go ahead.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning. Deane.

Q - Deane Dray {BIO 1722688 <GO>}

I appreciate hearing all the specifics on Honeywell's COVID responses. And maybe just to pick up right where you left off Darius, if you could, you said you wouldn't cut growth

CapEx but will there be any cuts to CapEx on the maybe maintenance CapEx. And could you size that for us please.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I mean, there might be, because obviously we're not operating our facilities as much as we do, some of them are operating at reduced work hour, so obviously to align some of the volumes that we're seeing obviously the maintenance budget might be a bit smaller somewhat there might be some trends around some of their maintenance budgets, just that's totally aligned to production, so there'll probably be some modest reductions in CapEx but we are not planning on reducing investments in future growth and future Npi projects.

A - Greg Lewis {BIO 20594853 <GO>}

Yes and the N95 masks is a good example. I mean you can imagine we're putting capital to work right now, to go do that. So again, absolutely going back and scrubbing our capital plan and making the appropriate adjustments, but to Darius's point, I mean growth is going to continue to be funded.

Q - Deane Dray {BIO 1722688 <GO>}

That's real helpful. And then just last one from me, if we could talk a bit about potential secular changes, it might be a bit too early but there has been a lot of discussion about re-shoring and specifically shortening supply chains and some of the sensitivities there, you've obviously responded with the increase in the N95 mask, but since we have Torsten, here we can hear about how Honeywell is responding. Do, you think reassuring of supply chains are, is something that will be a meaningful driver. And how is Honeywell getting positioned. Thanks.

A - Torsten Pilz {BIO 20687624 <GO>}

Yes, I think it is a little bit too early to tell at this juncture as to what we'll do, but you have to remember that our strategy always has and is kind of a regional for regional and local for local production chains. I mean, if anything, I'd like to accelerate that. I'd like to be really local for local. I mean we're mostly there and I think that's still very much the right strategy. You got to produce in the countries in which you operate in leveraging those supply chains and operate locally.

So, I'm not sure that's a dramatic change from where we have been, if anything, it's probably an acceleration of the strategy that we already have.

Q - Deane Dray {BIO 1722688 <GO>}

Great, thank you. And best of luck to everyone.

A - Torsten Pilz {BIO 20687624 <GO>}

Thank you.

Operator

Next we'll hear from Peter Arment with Baird. Please go ahead.

Q - Peter Arment {BIO 1553462 <GO>}

Yes, thanks. Thanks, good morning Darius, Greg, Mark. Darius and thank you for everything you're doing regarding all the mask and the PPE stuff, it's really great. Just maybe a bit. A question on aerospace, just to circle back more of a higher level question, but just, the installed base of equipment and given the aftermarket is so important, you've always been kind of representative of kind of the global fleet in terms of installed base. How are you thinking about like aftermarket beyond this. I mean do you think there's going to be some structural impairment because of the heavy retirement. Probably an unfair question, but I'm just going to give it a shot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, well, I think a lot of that depends upon how quickly we think the air traffic will return and there is a little bit of a trade-off well airlines want disposable cash to acquire new aircraft or will they want to operate the current fleet to maintain cash flexibility and retain those cash. So, and then also the timing matters, too. So, is that something we are thinking about. Sure, absolutely, but exactly in our, there's kind of 2 different theories one theory is, you retire more aircraft and bring in new ones. Okay. Because of the efficiencies and so on that makes sense. But, another theory is okay. You may not want to necessarily as an airline, part with a lot of cash, it further spend it right now and you're in cash distress state. So, we'll see which way it goes, I think the most important thing to remember and and also we're spending all our time and energy in providing solutions for airlines and even airports in terms of how we can regain passenger confidence to fly again. When people start sets sitting at home and when we finally start opening up the economies, the single most important thing that can happen for this industries, people gaining the confidence, that to fly again and that's really where we're spending our time and energy.

Q - Peter Arment {BIO 1553462 <GO>}

I appreciate the details. Thanks again.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Next we'll hear from Josh Pokrzywinski with Morgan Stanley. Go ahead.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Hi, good morning all.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hey, Josh good morning.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

First question. Yeah, can you hear me?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

So, I guess first question impact on of customer shutdowns and kind of this inability to do service or on-site with some folks. I appreciate that we're still kind of operating in some of these (inaudible) but, relative to that down greater than 15%, how much of that is just kind of an inability to, to get the work done, whether it's in the building or refinery, etc.

A - Greg Lewis {BIO 20594853 <GO>}

Yes, Josh, it's actually, it's really hard to parse it and be able to say for sure. I mean, we think, we probably lost 2 to 3 points of growth in the first quarter due to some of these issues and to be honest, it's not like I know what they're going to be, until people movement becomes freer we're going to struggle with, with service and project execution in the Solutions businesses while social distancing norms become clear in the factories, that's going to have an influence over capacity and attendance and so on, but it's near impossible for us to put a number on that, which is partly why we shared the greater than down greater than this type of a number as opposed to some level of precision because it's changing almost daily and it's different in every region of the country. It's going to be different in certain states in the US.

And so, I wish I could provide you something more precise, but, but frankly that's part of the reason why our level of visibility is precluding us from giving more precise guidance.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Understood. And then just a follow-up on Jeff Sprague's question on the aftermarket versus flight hours. If I think about past downturns in air traffic E-cannibalization risk that comes out the other side and kind of delays that recovery in your business relative to flight hours or do you tend to move in lockstep in both directions. I know everyone's product portfolio kind of lends itself to different different exposures on that.

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, I think there is just a lead lag effect, right, I mean I think there is clearly a correlation on the aftermarket to flight hours flown, both on the BG and air transport side, there is probably a little bit of a delay in terms of recurrence and growth in flight hours. And that being exhibit in the aftermarket consumption. But, other than that I think that correlation is generally there. And as you see flight hours return, whether it's in the business segment or air transport, you should start to see aftermarket return, probably with some lagging effects

A - Greg Lewis {BIO 20594853 <GO>}

Yes, I think as you described earlier Darius. But the bigger variable will be the new plane, old plane situation if people are buying lots of new planes, that's going to have a different effect, if there, if they're running, the older equipment and not taking new deliveries, that's going to, that's going to affect that as well. So, these are, these are some of the variables that we'll have to see how they play out here over the coming quarters.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Okay, thanks for the detail. Stay well guys.

Operator

Savannah, we will take one more question, please. And we'll take our final question from Joe Ritchie with Goldman Sachs. Please go ahead. (multiple speakers)

A - Mark Bendza {BIO 21178179 <GO>}

Let's move onto the next one please Savannah.

Operator

Okay. And then we will hear from Sheila Kahyaoglu with Jefferies. Please go ahead.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hey, good morning everyone and thanks for the time. Darius, on HBT a large portion is exposed to commercial construction. What are you hearing from your customers in terms of service versus products, how are they doing, how do you think about a recovery. I think you noted you think it's a short-term demand issue. Do you think we see any sort of structural change for commercial demand?

A - Darius Adamczyk {BIO 18702500 <GO>}

No, I mean, I'll answer your second question first, I don't see any structural change for commercial demand. I mean, I actually think there is an opportunity of our HBT business because what CEO of any commercial building isn't going to want to provide a safer, cleaner environment for us for his or her employees.

So, I think that in terms of overall commercial construction, I don't see any structural change. You know short-terms, a little bit tougher to predict. As you can imagine throughout the world, you have different rules and regulations some regions, some states, some countries are allowing construction to keep going. Others have put more tight restrictions and it's not allowed and as the world kind of comes back, we're going to have a little bit better visibility and actually access both to service some of these buildings, as well as to provide products and solutions.

So, it's a bit of a mixed story, but it's more or less realigned to the world kind of returning to some level of normalcy and, and it's, it's really varied throughout the world in terms of and in some places, construction is moving, others it it's in a pause state.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

And then I guess my second question, maybe can you talk about what sort of recovery, you're starting to see in Asia, and China by segment. How quickly are some of these businesses coming back?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I think it's a little bit of a mixed story and maybe I'll use China as an example. So, as you can imagine in China, January, February were extraordinarily slow, the business was, there wasn't really much of anything happening. March was better March, we saw a bounce back, which was, which was encouraging, but April's then no, not horrible but soft. I mean think about negative single-digit kind of business. So, and I think the assumption that China is back to normal, at least it's only an April data point, may not be they not be correct, aviation is just starting to pick up in China and this is a little bit of what I talked about before, which is we have to get the passenger comfortable to fly again because just because you lift some of the restrictions, that doesn't mean that people are going to jump on airplanes, the second day after that. So, there's got to be real level of focus and effort to make sure that they come back and that's, that's what we're working with a lot of our airport and airline customers on some of the solutions.

And we have some really good ideas to help them, think through that.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Okay, great, thanks for the color.

Operator

And that concludes today's question-and-answer session. At this time, I would like to turn the conference back to Mr. Darius Adamczyk, for any additional or closing remarks.

A - Darius Adamczyk {BIO 18702500 <GO>}

I want to thank our shareowners for their continued support of Honeywell. These are challenging and uncertain times for all and we remain focused on continuing to perform for our shareowners, our customers and our employees. While we cannot predict how the COVID-19 pandemic will ultimately impact our business in the global economy, we are well positioned to weather the storm with a balanced portfolio, track record of execution and strong balance sheet, we've managed through uncertain times before and we will do so again.

So, 2020 will be challenging, I continue to be excited about the future for Honeywell, our operational rigor will serve us well, given the near-term economic outlook. Thank you all for listening and please stay safe and healthy.

Operator

Thank you. That does conclude today's teleconference. Please disconnect your lines at this time and have a wonderful day.