Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Obin, Analyst
- Andy Kaplowitz, Analyst
- Deane Dray, Analyst
- Gautum Khanna, Analyst
- Jeff Sprague, Analyst
- Julian Mitchell, Analyst
- Nicole DeBlase, Analyst
- Nigel Coe, Analyst
- Peter Arment, Analyst
- Scott Davis, Analyst
- Sheila Kahyaoglu, Analyst
- Steve Tusa, Analyst

Presentation

Operator

Good day, and welcome to The Honeywell's First Quarter Earnings Release. At this time, all participants are in a listen only mode, and the floor will be open for questions following the presentation. As a reminder this conference is being recorded.

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

Mark Bendza {BIO 21178179 <GO>}

Thank you, Jake. Good morning, and welcome to Honeywell's first quarter 2021 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. 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. 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 2021 and share our guidance for the second quarter and provide an update to our full year 2021 outlook. 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. Let's begin on Slide 2. We delivered a very strong start to 2021, exceeding the high end of our first quarter organic sales growth, segment margin and adjusted earnings per share guidance range. In the first quarter, we delivered adjusted earnings per share of $1.92, down 13% year-over-year and $0.09 above the high end of our guidance range. Organic sales were down 2% year-over-year, a 5 percentage point sequential improvement from the 7% organic sales decline in the fourth quarter of 2020. We drove year-over-year organic sales growth in two out of our four segments, HBT and SPS, despite facing difficult comps since the first quarter of 2020, wasn't fully impacted by the pandemic.

Honeywell Building Technologies have returned to growth and Safety and Productivity Solutions achieved an outstanding 47% organic growth in the quarter. We also drove double-digit year-over-year organic growth in connected software sales, driven by strong demand for our Connected Buildings and cyber solutions. We delivered segment margin of 21%, 10 basis points above our guidance, with margin expansion in Aerospace, HBT and SPS. We generated $757 million of free cash flow in the quarter, a strong performance despite increased investments in high return capital expenditures, which were up approximately $80 million year-over-year as we position ourselves for the recovery. Adjusted free cash flow conversion was 56%, up 500 basis point year-over-year and the strength of working capital improvements.

In terms of capital, we deployed $3 billion to dividends, growth CapEx, share repurchases and M&A during the quarter. We opportunistically repurchased 4 million shares throughout the quarter, reducing our share count to 705 million. We're off to a strong start in 2021, and I'm very confident that continued improvement in our end markets, coupled with accelerated innovation and strong execution, will provide a long runway for continued business improvement and top-tier value creation for our shareholders.

Next, let's turn to Slide 3 to discuss a few of our recent business highlights. I'm excited to share a few recent recognitions and partnerships that highlight our commitment to upholding the highest ethical standards and are focused on creating breakthrough innovations. First, Honeywell is one of only eight companies in the industrial manufacturing category to be named one of the World's Most Ethical Companies by Ethisphere. Ethisphere is an organization that evaluates and honors businesses around the globe and across industries for their strong cultural, environmental, social, governance and diversity practices. We are proud to have earned this prestigious ranking.

Second, Honeywell's named to Fast Company's annual list of the World's Most Innovative Companies for '21. In addition to being recognized for 100-year heritage of creating groundbreaking technologies like quantum computing that transform the way the world works. Honeywell was also recognized for mobilizing quickly to help people and businesses cope with the pandemic, including our launch of new N95 mask manufacturing and our introduction of our UV treatment systems for airplanes, healthy building solutions and innovative Aclar Edge bottles and vials.

We also recently announced our partnership with musician and entrepreneur will.i.am to launch the XUPERMASK, a one-of-a-kind innovative smart face mask for the mid- and post-pandemic world. The XUPERMASK is easily adjustable to fit a variety of face shapes and is enhanced with multiple functions for the modern lifestyle, including dual three-speed fans and HEPA filters for enhance breathability, active noise canceling audio and microphone capabilities and Bluetooth connectivity.

Finally, we are continuously evaluating our portfolio for M&A opportunities that can enhance our existing offerings. During the first quarter, we signed an agreement to acquire a majority stake in Fiplex Communications, a company that develops in-building communication systems, including bi-directional amplifiers that provide continuous and critical in-building radio coverage in challenging environments to improve the safety of first responders and building occupants. The addition of Fiplex products and software will enhance our offering in the fast-growing in-building communication market and complement our innovative, industry-leading portfolio enabling us towards creating the next-generation of fire and life safety solutions.

Now, let me turn it over to Greg on Slide 4 to discuss our first quarter results in more detail and to provide an update on our 2021 outlook.

Greg Lewis {BIO 20594853 <GO>}

Thank you, and good morning, everyone. As Darius highlighted, we're very pleased with our start to 2021. While the COVID pandemic continues to impact some of our end markets, our laser focus on demand generation, operational execution, and cost management enabled us to over-deliver on our commitments. First quarter sales declined by 2% organically, due to the effects of the COVID-19 pandemic, which represents a 5 percentage point sequential improvement from the fourth quarter. As Darius mentioned, that was driven by robust double-digit growth in our warehouse automation solutions and personal protective equipment businesses, as well as continued demand for our building products and services, advanced materials strength and strength in our connected software.

We expanded margins year-over-year in three out of four segments: Aerospace, HBT and SPS for the second consecutive quarter, limiting Honeywell's overall segment margin contraction to 80 basis points and ending the quarter with a segment margin of 21%. Our commercial excellence and strong cost management, as well as an approximately $30 million one-time benefit in Aerospace drove 10 basis points of outperformance in segment margin, compared to the high end of our guidance range, despite the mix headwind from much stronger sales in our lowest margin segment SPS.

We delivered adjusted earnings per share of $1.92, down 13% year-over-year. This was $0.09 above the high end of our guidance, driven by segment profit improvement from higher sales volumes and by a lower-than-expected effective tax rate. From a year-over-year perspective, below-the-line items, we're in a $0.11 headwind, driven by lower interest income and FX and higher repositioning and interest expense, partially offset by higher pension income. Our effective tax rate was higher than the first quarter of 2020, primarily due to benefits realized in the prior-year period from tax law changes in India, and the resolution of certain US tax matters, driving a $0.13 headwind. This was partially offset by a $0.03 EPS benefit from lower share count. A bridge of all this from 1Q '20 to 1Q '21 adjusted EPS can be found in the appendix of this presentation.

We generated $978 million of cash from operations, up 4% year-over-year, despite lower net income. Free cash flow for the quarter was $757 million, down 5% year-over-year due to higher capital expenditures, particularly in SPS, as we continue to expand PPE capacity. Working capital improvements, including strong collections offset these headwinds during the quarter, driving adjusted free cash flow conversion of 56%, up 500 basis points from the prior year. As you know, the first quarter is historically our lowest from a cash perspective and we remain on track to our full-year cash guidance. I'll talk more about our full-year outlook in a few minutes.

We strategically deployed $3 billion to M&A, share repurchases, dividends, and CapEx in the first quarter, which significantly exceeded our operating cash flow. We paid $640 million in dividends, deployed approximately $220 million in CapEx, up 60%, repurchased over $820 million of Honeywell shares, reducing our share count to 705 million and also we completed the purchase of Sparta Systems, deploying a total of $1.3 billion to further bolster our software, controls and analytics capabilities and the attractive life sciences space. The integration of Sparta is progressing well. And, in fact, we exceeded our first quarter financial expectations with sales of Sparta up 25% year-over-year and bookings up approximately 75% year-over-year.

In March, we also repaid $800 million in maturing senior notes as we began the process to repay debt taken on to provide incremental liquidity during the COVID-19 pandemic. We maintained a strong balance of cash, cash equivalents and short-term investments at the end of the first quarter of $12.7 billion. So, all in all, we had a very strong start to 2021. We are investing for the future, continuing to execute commercially and operationally with the discipline and rigor you have come to expect from Honeywell, positioning ourselves well for the recovery ahead.

Now, let's turn to Slide 5, and talk about the individual segment results. Starting with Aerospace. First quarter sales were down 22% organically, driven by lower commercial aerospace demand due to the ongoing impact of reduced flight hours and lower original equipment volumes. Our air transport aftermarket sales were down 48% organically year-over-year, and down 7% sequentially from 4Q '20, as rising infection rates, the pace of vaccinations early in the quarter, and the lack of the peak holiday travel contributed to flight hour declines as we messaged it was possible in 4Q. Our business aviation aftermarket sales were down only 6% organically year-over-year, as we see a fast recovery in this space. And original equipment, while still down year-over-year, our business aviation OE grew double-digit sequentially from 4Q '20, driving a 6% sequential growth in the total commercial original equipment from 4Q.

Defense and Space was down 2% organically as demand for US defense and space was offset by lower international defense volumes. Aerospace segment margin expanded 110 basis points to 29%, driven by strong cost management in the face of organic sales declines and an approximate $30 million one-time benefit.

Building Technologies returned to growth in 1Q, despite facing the most difficult comps we'll see this year, since 1Q '20 was only partially impacted by the pandemic. Sales were up 2% organically driven by demand for building management systems and security and commercial fire products, as well as continued growth in building solution services. Orders and backlog for building solutions services were both up double digits year-over-year, positioned the business for continued growth in '21. In addition, our portfolio of healthy building solutions maintained strong customer momentum with exciting wins with the Jacksonville Jaguars, the Pittsburgh Airport, and Syracuse University. HBT segment margins expanded 200 basis points to 22.5%, driven by commercial excellence and productivity, net of inflation.

PMT sales were down 47%, excuse me -- were down 6% organically, a 6 percentage point sequential improvement from the 12% organic sales decline we saw in 4Q. Process Solutions sales were down 9% organically, driven by continued project delays and lower smart energy demand, due to some softness in the end markets, partially offset by demand for field instruments. Orders for services, process management and control products and thermal solutions grew in the quarter, positioning the ACS service and products businesses for acceleration in the second quarter and beyond.

In UOP, sales were down 14% organically, driven by the ongoing weakness in the energy end markets. However, this was a 16 point sequential improvement from the 30% organic decline we saw in 4Q. UOP orders were up double digits driven by gas processing catalyst orders. So we are seeing some signs of growth potential for the future. Finally, advanced materials sales increased 8% year-over-year organically, driven by growth broadly across the portfolio, including strong growth in fluorine products, specialty additives, chemicals and electronics materials demand. PMT segment margins contracted 290 basis points in the first quarter, driven by the impact of sales mix, partially offset by commercial excellence and cost management.

Finally, in Safety and Productivity Solutions, sales were up 47% organically, as Darius mentioned earlier, driven by strength across the portfolio, including double-digit organic growth in Warehouse and Workflow Solutions, personal protective equipment, and productivity solutions and services, who drove market share gains due to strong demand in the US and Europe. SPS orders were up double digits year-over-year for the sixth straight quarter, driven by continued demand for personal protective equipment and Productivity Solutions and Services. SPS backlog was up approximately 70% year-over-year, remaining above $4 billion for the third consecutive quarter, including $2.1 billion of backlog to Warehouse and Workflow Solutions.

SPS segment margins expanded 180 points in the first quarter, due to -- to 14.3% driven by the impact of those higher sales volumes. So overall we finished the first quarter with the return to sales growth in HBT, and with continued growth in other areas of the portfolio, as well as backlog strength in HBT, Warehouse and Workflow Solutions, Productivity Solutions and Services, PPE and UOP. We expanded margins in three of the four segments, while strategically investing in high return growth CapEx and R&D giving us confidence that our businesses are well positioned as demand recovers.

With that, let's turn to Slide 6, and discuss our preview for the second quarter. As the timing and speed of the economic recovery continues to unfold, we entered the second quarter well positioned with strong momentum in some key areas of the portfolio continuing to make progress each quarter. For the second quarter, we expect organic growth in the range of 10% to 13%, as we've lapped the first full quarter disrupted by the COVID-19 pandemic. We expect some of the areas of the portfolio that have been most significantly impacted, particularly the commercial aerospace aftermarket and HPS businesses to return to growth. We also expect ongoing strength in Safety and Productivity Solutions, Building Products and Advanced Materials.

We would normally see a seasonal step up from 1Q to 2Q, which this year will be somewhat dampened by the calendar impact of having more days in the first quarter than we do in 2Q. We will be facing some supply chain constraints as the sourcing environment for direct materials and components, such as semiconductors and resins continues to be challenging. We have taken swift actions to partner with our distributors to mitigate those impacts, but our second quarter sales will be somewhat constrained as these shortages create higher lead times, primarily in SPS and, to a lesser extent, in HBT.

As a reminder, during 2020, we responded fast and early to the pandemic by identifying and delivering on a two phase program that reduced our fixed cost base by $1.5 billion and approximately 70% of these savings or about $1 billion were permanent reductions. As such, we'll see approximately $500 million of headwind in 2021 for the year from the temporary savings measures we implemented, and as we resume some areas of spending, including business travel, merit increases and investments in growth, particularly in R&D. These impacts will begin to accelerate in 2Q, though, we are confident in our streamlined cost base, it gives us ample capacity to invest and positions us well to drive margin expansion across all four segments as sales recover.

We expect sales -- excuse me, we expect segment margin in the range of 19.8% to 20.3% for the second quarter, which represents a 130 basis points to 180 basis points of margin expansion year-over-year. From a sequential perspective, our second quarter segment margin expectations do result in contraction from the first quarter due to the mix impact of higher sales from lower margin businesses, higher research and development expenses, as we invest back into the business, particularly Aerospace, and the cost impacts that I mentioned earlier, as well as the first quarter benefit in Aerospace, which won't repeat.

The net-below-the-line impact, which is the difference between segment profit and income before tax is expected to be flat to a $55 million benefit with a range of repositioning between $50 million and $100 million for the quarter, as we continue to fund ongoing restructuring projects. We expect the effective tax rate to be in the range of 23% to 24% for the quarter, and our average share count should be flat to 1Q at approximately 705 million shares. As a result, we expect second quarter earnings per share between $1.86 and $1.96, up 48% to 56% year-on-year.

Now, let's take a moment just to talk through the segments. In Aerospace, we expect flight hours to improve in the second quarter, driving sequential and year-over-year improvement in commercial aftermarket sales as domestic travel improves. That will be tempered by ongoing softness in international travel as flight hours remain far below pre-COVID levels there. We still expect a slow ramp in commercial, original equipment build rates. Moderate US defense spending should continue in the second quarter, though, this will be pressured by lower international defense volumes.

In Building Technologies, as business conditions improve and as the world prepares to safely return to offices, schools and travel, we expect continued demand for building products and management systems, as well as sequential and year-over-year building solutions growth, as we execute our projects and services backlog. In addition, we expect continued customer demand for our portfolio of healthy building solutions, which we began converting into sales in the first quarter.

In PMT, we expect continued recovery in the Process Solutions products businesses, as well as sequential improvement in automation projects. While UOP orders were up double digits year-over-year in the first quarter as I mentioned earlier, we expect customer CapEx and OpEx budgets to remain tight in 2Q, limiting the delivery and execution of those opportunities in the near-term. We expect continued strength in Advanced Materials in the second quarter driven by growth across the portfolio, particularly by strong demand for fluorine products.

Finally, we anticipate continued strength in SPS with another quarter of robust double-digit organic growth in Warehouse and Workflow Solutions, Personal Protective Equipment and Productivity Solutions and Services. Our Warehouse and Workflow Solutions backlog remained strong over $2 billion, as I mentioned previously, as customers make investments in advance of the busy holiday season, giving us confidence and continued growth. Our PPE and Productivity Solutions and Services backlogs are both up triple digits, which will drive growth in the second quarter. So, as I mentioned, we will be managing some supply constraints here. Overall, we expect another strong quarter for SPS.

So, with that foundation for 2Q, let's turn to Slide 7 and talk about the key changes to our 2021 outlook, since the guidance we provided in January. Over the past few months, we've seen tremendous progress in the distribution administration of the COVID-19 vaccine, particularly in the US, the UK, and the Middle East, coupled with improvements in infection rates in many of those geographic areas. We're also encouraged by talks of fiscal stimulus that will further support economic growth, including funding for infrastructure, clean energy and manufacturing investments. While the pace of recovery varies regionally with slower vaccine roll-outs in India, Europe, and Latin America, and with the emergence of new COVID-19 variants, we will continue to navigate the recovery with a balanced approach of investment and cost management in order to drive value longer-term.

So, let's take a moment to walk through what's changed since our prior guidance. Starting in Aerospace. We continue to expect gradual improvement in our commercial aerospace business as the pandemic subsides. The business aviation aftermarket is on track to recover as expected and perhaps at a somewhat faster pace than we thought. In air transport, the aftermarket business had a slow start to the year, as I mentioned earlier, being down sequentially compared to the fourth quarter as virus outbreaks and challenges with vaccine roll-outs tempered improvements in the first quarter flight hours. The pace of this acceleration will vary regionally with domestic travel clearly recovering faster than international travel and country-by-country dynamics will make this difficult to predict. We remain cautious in our ramp expectations here as this unfolds.

We continue to see moderate demand for US defense and space, offset by lower-than-expected, international defense volumes. As a result of these dynamics, we expect organic growth for the year in Aerospace to trend towards the low end of our flat- to low-single digits guidance, which we provided in January. And overall Aerospace segment margin expansion to be somewhat impacted by the slower ramp and high-margin commercial aftermarket sales. In HBT, we still expect organic sales growth to be up low-single digits for the year. The business is seeing robust activity and is trending towards the upper end in the low-single-digit range with continued demand for building products and management systems and continued momentum in healthy building solutions fueling that growth. We continue to expect segment margin expansion, driven by higher sales on a streamlined cost base.

In PMT, our expectations have not changed materially from our initial guidance. We still expect organic sales growth to be slightly -- to be down slightly to up low-single digits for the year. The recovery is progressing with strength in Advanced Materials and improvement in product -- Process Solutions products and a slower recovery in HPS projects and UOP catalyst. As customer spending has not materially changed, delaying projects and reloads, which contributes to our view that we are trending towards the low end of this -- at this time. We continue to expect sequential segment margin expansion throughout the year in PMT, driven by cost management and some improved mix from UOP in the second half, though, the specific timing of that remains uncertain. The recovery in oil and gas looks to be building momentum for a stronger 2022.

Finally, in SPS, Warehouse and Workflow Solutions, PPE and Productivity Solutions and Services are all trending better-than-expected in January. We now expect higher double-digit organic sales growth in our previous guidance, a short cycle sales accelerated in Productivity Solutions and Services, and it will be accelerating in our sensor businesses, though, that will be somewhat tempered by the supply tightness I mentioned earlier. The increase in warehouse automation sales, which are lower margin, as you know, will impact our overall SPS segment margins, though, this will be partially offset by increased sales and higher margin PPE and Productivity Solutions businesses.

Now, let's turn to Slide 8, and talk about our updated guidance for the year. Given the macro and segment backdrop I just talked about, our strong outperformance in the first quarter and our confidence in our ability to deliver through the economic recovery, we are raising our full-year sales, earnings per share and free cash flow guidance. We now expect sales of $34.0 billion to $34.8 billion, which represents overall organic sales growth in the range of 3% to 5%, an increase of 2 points in the low-end and 1 point in the high-end compared to our previous guidance. Given that our strengthening sales outlook is heavily driven by our lower margin SPS segment, we are maintaining our segment profit guidance in the range of 20.7% to 21.1%, an expansion of 30 basis points to 70 basis points for the year. We still expect margin expansion in all of our segments as we carefully invest back into the business, while managing the multi-speed recovery across the portfolio. We do not expect material changes to our net-below-the-line impact at this time, which we estimate to be in the range of negative $130 million to a positive $20 million for the year, including capacity for $400 million to $525 million of repositioning.

We continue to expect a full-year effective tax rate of approximately 21% to 22%, and a weighted average share count of approximately 705 million for the year, representing our minimum 1% reduction in shares. As a result, we are raising the low-end of our adjusted earnings per share guidance and now expect a range of $7.75 to $8, up 9% to 13%. This represents an increase of $0.15 on the low-end, effectively increasing the midpoint of our guidance by approximately $0.08. We expect free cash flow in the range of $5.2 billion to $5.5 billion, which is higher than the low-end of our previous guide by $100 million. So, overall, a great start to the year and a meaningful upgrade to our full-year view in sales, segment profit, cash and ultimately adjusted EPS as we managed the initial stages of this recovery.

So, with that, I'll turn the call back over to Darius.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Greg. Before we wrap up, I'd like to take a minute on Slide 8 to discuss ESG. At Honeywell, we consistently say and firmly believe that a robust environmental, social and government's framework enables us long-term success. In fact, responsible corporate citizenship is an essential part of our value creation framework. Importantly, we announced a commitment earlier this month to become carbon-neutral in our operations and facilities by 2035. This represents a continuation of our ongoing sustainability efforts, which have already reduce the greenhouse gas intensity of our operations and facilities by more than 90%, since 2004. In addition, worked extensively to increase energy efficiency, conserve water, minimize waste, and proactively champion [ph] responsible remediation projects that restore valuable community assets.

We plan to achieve our commitment through a combination of further investments in energy savings projects, conversion to renewable energy sources, completion of capital improvement projects at our sites, and in our fleet of company vehicles and utilization of credible carbon credits. We have decades-long history of innovating to help customers meet their environmental and social goals. In fact, about half of Honeywell's new product introduction research and development investment is directed towards products that improve environmental and social outcomes for customers.

For example, the widespread adoption of Honeywell's Solstice line of low global warming potential refrigerants, blowing agents and aerosols has already reduced the equivalent of more than 200 million metric tons of carbon dioxide to date, equal to eliminating the emissions from more than 42 million cars. A few days ago, we announced that Whole Foods Market has adopted the Solstice N40, lower global warming potential refrigerant in more than 100s of US stores, as it seeks to reduce refrigerant emissions under the US Environmental Protection Agency's GreenChill program. This is just one example of how our innovative products and services continue to improve customer sustainability profiles and how Honeywell is playing an active role in shaping our future, that is safer and more sustainable for generations to come.

Now let's wrap up on Slide 10. In summary, we delivered a strong start to 2021, the first quarter results that exceeded expectations. We are seeing promising signs of rapid recovery in some of our markets and we're executing on our rigorous and proven value creation framework, which consistently deliver shareholder outperformance in all economic cycles, and we'll continue enable us to return to our key long-term growth commitments in 2021 and beyond.

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

Mark Bendza {BIO 21178179 <GO>}

Thank you, Darius. Darius and Greg are now available to answer your questions. We ask that you please be mindful of others in the queue, by asking only one question. Jake, please open the line for Q&A.

Questions And Answers

Operator

(Operator Instructions) We will begin with Steve Tusa with JP Morgan.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey, guys. Good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Steve Tusa {BIO 4278663 <GO>}

I'll ask my one question in five parts. On the second quarter, you guys had said, in the last call, that margins would kind of build from 1Q to 2Q, even excluding the $30 million in Aero, they're down. First of all, kind of what changed relative to what you were expecting back then. And then second of all, just in kind of the second half of the year. Normally things kind of level out from the second quarter, is this you're going to be a little bit different seasonally given the later cycle nature of the company? And then last one would be on Aerospace. How do you think your performance compared to like what you gauge is flight hours, this quarter on your aftermarket?

A - Darius Adamczyk {BIO 18702500 <GO>}

There was almost five, I think you got up to four. So --

Q - Steve Tusa {BIO 4278663 <GO>}

Sorry, sorry.

A - Darius Adamczyk {BIO 18702500 <GO>}

Let me start with the margins. On the margins, the biggest thing that changes is our debt. The mix makeup of our Q2, and sort of the fastest growing business for us is Intelligrated, which is going to be growing even faster than we anticipated, and it -- think about sort of a mid to high double-digit growth rate for that business. So we -- our bookings, our success, our output is growing and frankly it's mixing in at even more as part of the overall portfolio. So that is the number one and primary reason that there is a little bit of that change. Some of the headwinds, marriage that thing that we anticipated that, so there is really no change in that. But the short answer is, Intelligrated business is growing even faster than we anticipated and continues to be a growth engine for us.

In terms of the second half, I think the one thing to be -- to interpret it wrongly for our earnings releases that were somehow less bullish on the second half. We're not -- yeah, we're actually very excited about the second half, and -- but frankly, it's one quarter in, in a year where there are many, many unknowns, including COVID rates, in terms of infection rates and the current supply chain and so on. We don't see anything in there that we're particularly worried about, but it is one quarter into a year, which probably has many more unknowns than most.

I think your third question was around sort of what's upwards down. I would say -- I would characterize the following in terms of, our BGA flight hours are actually up, vis-a-vis our initial assumptions. So that's what's up. What's down is our air transport, which obviously is a bigger number vis-a-vis BGA. So in total we're about the same, but it's a little bit different. And then lastly, I would tell you that, Defense and Space was roughly where we expected, the US markets were strong, International's were a little bit weaker. We're sort of looking at that for rest of the year. We don't know there were some sort of channel loading that kind of happen at the end of the year, not that we drove it, but the distributors themselves. So those are sort of the puts and takes.

But the framework that, that everybody ordered, just fully understand is, we are very bullish on our markets and what we're seeing is the short cycles coming back very strongly compared. You also added Intelligrated. I mean, when was the last time, Steve, you've seen any segment in any of our peers, grew 47% year-over-year, I mean that's remarkable. And now in the SEK, whether it's in the third quarter or fourth quarter of this year, you're going to see some of our longer cycle businesses coming back, whether it's PMT and Aerospace. I can't exactly call it, whether it's Q3 or Q4. There's a lot of moving pieces, but they're going to come back. And as you all know those are higher margin businesses. So we're -- I think we're on a really, really nice ramp here coming up for our future. Greg, I don't know if you have anything to add.

A - Greg Lewis {BIO 20594853 <GO>}

No. I think you hit it right on. And I think we've positioned ourselves well, set for what's to come. You mentioned some of the temporary costs that we talked about coming back and they will be coming back starting in 2Q, merits go in, in April. So -- so these are -- these are things that -- and we're going to increase our investment in R&D as we said. So I think you hit the salient points.

Q - Steve Tusa {BIO 4278663 <GO>}

Thanks. Just FYI, pool pumps grew 50% this quarter. So they be you guys on that front, continue [ph] pool pumps, just letting it out. Thanks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Pool pumps. It was pretty close there Steve, 47%, 50% [ph], you know.

Operator

We'll now take our next question, and that will come from Scott Davis with Melius Research. Please go ahead.

Q - Scott Davis {BIO 2393277 <GO>}

Good morning, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Scott Davis {BIO 2393277 <GO>}

So I read your answer, it mean that you're going to enter the pool pump business?

A - Darius Adamczyk {BIO 18702500 <GO>}

Fairly, it's an opportunity we need to go investigate.

Q - Scott Davis {BIO 2393277 <GO>}

I think so.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, this is an opportunity.

Q - Scott Davis {BIO 2393277 <GO>}

I'm going to keep it simple. Can you just talk about price broadly versus cost?

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. Yeah, no. That's -- that's definitely a watch-out item for the year. And for us, inflation is taking hold. There is no doubt about it. We knew it. We see it, it's real. And if you don't stay on top of it, the two areas where -- and this is not a surprise. Steel, semiconductors, copper, ethylene, those are the four elements that we saw substantial inflation in Q1. I can tell you that we stood up at pricing team, which is been in place since the beginning of the year. We are quickly taking actions. And we are staying ahead of it. And we're going to continue to monitor what happens and stay ahead of it, but it's a watch-out item. I don't think things are going to abate. The short cycle is definitely hard. We all read the same articles around semiconductors and what's going on there. And I think we're going to have to just stay ahead of it. But we do expect that inflationary environment this year and we're going to be to stay ahead of it. That's our commitment.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. I'll pass it on. Thank you, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Scott.

Operator

We'll now hear from Julian Mitchell with Barclays.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, morning. Maybe just sticking to the one question rule. The SPS margin outlook. Maybe just give us some context short and long-term. I think you'd said Q2, the margins probably worse. So maybe how large is that sequential step down in SPS? And also longer-term, you've got that close to 20% guide out there. What's the approximate sort of aspiration of when people should think about that, or is it just sort of off the table for the medium-term because of how good the growth is?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, so, Julian, I don't think we said that margins contract in SPS sequentially. I think what we were trying to highlight is simply it's, at, at -- in the fourteens, it's the lowest one in the portfolio, and it's driving the biggest part of the growth, so it gives some pressure to the overall margin expansion for Honeywell. I think we're going to see margins improve modestly for SPS during the course of the year, because even for our Intelligrated as an example, we're going to have our peak quarter most likely here in Q2, on the revenue side, and then that will start to abate a little bit as the year progresses as well. You know that, that business can be very lumpy on the install that's not new news. So the movement of that will influence the margin progression.

As it relates to your 20% target, we absolutely still have that in mind, in the longer term. It's probably not 24 months from now. We've talked quite a bit about the -- trying to capture the installed base, particularly in the Warehouse segment, and the whole point of that is then to follow with a terrific service that aftermarket business with software attached. And so as and when that, that shift occurs, then we'll see those margins mixing up and then again with the recovery that we've had in places like PSS, which I think Kevin Day and the team there have done a terrific job in that business. We start seeing margin accretion again there. So we still have a very much a line of sight to that 20%, but with roughly maybe even close to a $3 billion business in warehouse this year at the lower margin, that's going to give it some short-term pressure.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. If I could just maybe add a little more color on the long-term. And this is I think very, very consistent with the framework we provided. The Intelligrated business is growing at highly dynamic range. I mean, I think mid to high double-digit kind of range. And then mixes down even in the SPS portfolio. We've been -- that's not news. I think what is news is that we're continuing to take substantial market share in the marketplace, building installed base and is to build-out of the warehouse infrastructure moderates. We're going to get higher-margin business because obviously then it's going to mix much more the LSS. So there is really no bad news here. This is actually fantastic news that we're taking share, growing extraordinarily quickly.

And as I've I said all along, Intelligrated is the best acquisition we've ever done at Honeywell. Now it's more or less undeniable. And it's a business that continues to do well, and I see it -- I see it being primarily a projects business for the next short to mid-term, because the demand is still very, very high, whether it's North America and Europe, and we're going to capture that share. Ultimately it's going to become our higher margin business, as it becomes a bit more installed base-centric.

Q - Julian Mitchell {BIO 21229700 <GO>}

That's great. Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

You bet.

Operator

Next up we have Nicole DeBlase with Deutsche Bank.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Yeah. Thanks, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Nicole.

Q - Nicole DeBlase {BIO 16935492 <GO>}

So maybe I wanted to focus a little bit on HBT. I know that's part of the whole margin mix-down dynamic for the year, but HBT margins continue to move higher and we're a lot better than we had expected this quarter. I guess, how do you think about the sustainability of the strong incremental as you saw there in the first quarter, if you could kind of talk about the 1Q dynamics, as well as how you see margins progressing throughout the rest of the year in our business?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. We're very -- we're very bullish on the HBT business, the healthy buildings offerings is kicked in. As you know we booked roughly 100 million of that business in the year 2000. We expect it to be several hundred million in the year 2021. We're -- as we look at Biden infrastructure plan, there is a substantial amount of money, it's something to the tune of $50 billion for particularly education and infrastructure, we think that, that we're going to be able to play in there. The team has done a great job managing the margin profile in the mix. So we can -- we're very bullish on what's going to happen in HBT, and we think we're very constructive on it for rest of the year.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. I would just say the -- as you mentioned very strong margins in the first quarter, 22.5%. Our long-term target in this business was 23%. So this is one -- this is the beauty of the portfolio get everyone exactly at the same time, but this is one that's trending towards the high end. Some of that is, is going to be a little bit updated in the second half and perhaps even in the second quarter as the projects business becomes a bit bigger in the mix. So -- but we feel very good about the progress that, that team has made overall, over the last 18 months, 24 months post the spin at the Homes business. I think they've done a terrific job in productivity, and footprint, new product introductions, so I really think what the Malena [ph] team have been doing is quite good. And they're approaching -- they're approaching their long-term target here as we roll through 2021.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Got it. Thanks. I'll pass it on.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

We will now hear from Deane Dray with RBC Capital Markets.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Deane.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Deane Dray {BIO 1722688 <GO>}

I would love to get some color on Sparta, that those are pretty heady numbers, sales up 25%, bookings up 75%. Just give us a sense of what's the normalized run rate? What are the applications in it? It's kind of reminiscent of the way Intelligrated started and that turned out to be pretty sustainable in terms of double-digit? So just say the level status here, if you could, please?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. No. Good, good question. We're very, very happy were to start in Sparta, and sometimes when you acquire business you kind of hold your breath until you actually own it. and say, okay, did we buy what we thought we bought. And I'm very, very happy to report that we're very excited about the business. We bought exactly what we thought we're going to buy. The first quarter numbers speak for themselves, our strong double-digit growth bookings that are sort of multiples of that. Being in the life sciences space and providing quality management solutions is, I think going to have a very, very long runway for the future. We've got a great team in place there. We augmented the team with some professionals as well. And we're extraordinarily well-positioned to make that a big winner.

And then drive to synergies of our Honeywell Process Solutions business. I mean we forget that, that business is now really growing their Life Sciences segment of the business at a disproportionate rate. This will be a further catalyst to enable even more growth. And by the way, it's substantially margin accretive too. So, it wasn't kind of -- it wasn't maybe the typical Honeywell acquisition that we make, but we feel very, very good about it, now kind of being the proud owner for the quarter. And it all looks good for Q2, and the rest of the year as well.

Q - Deane Dray {BIO 1722688 <GO>}

Great, thanks. I'll pass it on.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Moving on to Jeff Sprague with Vertical Research.

Q - Jeff Sprague {BIO 1494958 <GO>}

Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hi, Jeff. Good morning.

Q - Jeff Sprague {BIO 1494958 <GO>}

Good morning. We'll keep an eye on Sparta, but for now the second best acquisition Honeywell ever did was UOP. I wonder if we could talk about that a little bit more. And really that kind of the nature of my question is very interesting to see the backlog pickup up, right. We're seeing this high level of activity in the chem space, in particular that's probably pushing out turnarounds. But maybe you could just give us a little bit more color on how you see the year playing there? How the business might kind of mix? And if there is any kind of related commentary in HPS, as part of that answer that would certainly be interesting.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Yeah, Jeff. Well, I think there was certainly some encouraging signs in Q1. I mean we had double-digit bookings into the -- in their services. Their catalyst part of the business is coming back. Our sort of book-to-bill is in much better shape this year than versus our assumptions this year versus where it was last year, so that's also promising signs. We're seeing some activity come back. And I also want to highlight, maybe a very important part of that portfolio for our future, which is the sustainability technology solutions business. It's quote log [ph] is, is in the 100 millions of dollars range now and growing very, very quickly. It's bookings were up 25%. And we're talking to literally 10s of different energy producers today about our sustainability technology solutions portfolio, which is highly experienced mainly from plastics recyclability, to eco-finding, to energy storage, to hydrogen energy, to carbon capture, we have all these solutions. So I am very optimistic about that business and it may look very different, three years to four years from now than it does today, because we've over-invested into our sustainability technology solutions portfolio.

Now on the larger projects, and you know this sort of the OpEx, CapEx budgets, I sort of expect that, although, I would view the price of oil and gas to be very friendly towards investment. We think that, that still could be a couple of quarters away, just because of where the budgets were set for a lot of the majors. And as you know, if they were depressed for this year, however, they are investing in the refurbishment catalyst and so on. And if you look at, and lastly, on your question as it relates to HPS, if you look at the HPS-UOP cycle, HPS typically trails UOP by two quarters to four quarters. That's sort of mathematically how things work. So we see some encouraging signs and those signs are going to get better and the business is going to get better for the next several quarters. So we're going to be patient, but we're very confident. This environment is going to keep improving, because as you know, you have to reinvest and although we're moving to a more non-carbon energy infrastructure, we're sort of need carbon for a while. And so we've got two different growth factors. Number one is to sustain the current, but also to help those businesses transition to the future.

Q - Jeff Sprague {BIO 1494958 <GO>}

Maybe just as a brief follow-on Darius, are you seeing any of those large kind of transportation fuel to petrochem projects kind of coming back on the board?

A - Darius Adamczyk {BIO 18702500 <GO>}

We're seeing some activity in some discussions, because as you know that's exactly right, which is a greater switch from fuels to petrochemicals. So that's very much a part of our kinds of discussions and quote logs that we're having. So, frankly some of the projects are not being released yet, they're being delayed. But we're highly, highly confident those will happen.

Q - Jeff Sprague {BIO 1494958 <GO>}

Great. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Now we will hear from Peter Arment with Baird.

Q - Peter Arment {BIO 1553462 <GO>}

Hey, good morning, Darius and Greg.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hey, good morning.

Q - Peter Arment {BIO 1553462 <GO>}

If there is -- question more on a kind of regional basis, just particularly focused on Europe. We would look at the first quarter flight activity in general and domestically in the US we're down 32%, but we were down 62% in Europe. I guess the question is really, how are you looking at Europe? They just more broadly speaking not just aerospace across your businesses? How are you seeing recovery there? Thanks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, Europe probably was a bit slower than we anticipate in terms of flight hours, I mean, that's clear in Q1. And Europe, I mean, I think there is a direct correlation towards vaccinations, right? And then we kind of -- as we look at Europe, there probably, let's call it three months to six months behind the US in terms of vaccination rates. So we're going to kind of continue to see slow rate of recovery here as we move through the year. And we actually expect a fairly robust domestic flight market in the US. It probably won't be the case in Europe, we think that that's probably going to push back into the fall. But Europe sort of the leaders are UK, US, Israel, UAE, those are -- those markets are recovering fairly quickly. I think Europe will be next. China is in a pretty good place. India is in a bit of a trouble spot. And Latin America is in bit of a trouble spot. So those will probably recover late this year. And then we see a very strong pickup, next -- even stronger pickup next year, particularly on the international routes. But some of those will recover in the second half of this year. I anticipate especially, US, Middle East, Europe, UK routes to be fairly active even in the second half of this year.

Q - Peter Arment {BIO 1553462 <GO>}

Appreciate it. Thanks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

And Gautum Khanna with Cowen has the next question.

Q - Gautum Khanna

Yeah. Thanks, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Gautum Khanna

I was wondering, if you could elaborate on -- yeah, if you could elaborate on the commercial aerospace aftermarket. You mentioned, sequentially it was down. Maybe if you could tease out how much Aero, a large commercial ATR was down? And then what are -- you mentioned that will be up in Q2, what are you seeing from a booking standpoint? What kind of indications are you getting for a magnitude of the improvement in Q2, and maybe your thoughts beyond that?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. It seems like we have the flight hours from Q1 to Q2, want to be up in the -- call it 20% range. Whether we have a little bit of a lag to that or not, remains to be seen. But as you highlighted and we talked about the Q4 to Q1, decrement is the lack of Thanksgiving, Christmas. You know the January -- the December and January infection acceleration. So as those things start coming down, domestic travel we expect will be the main beneficiary. And you see that from all the airlines who have reported Southwest, which is mostly a domestic leisure travel is doing fantastic. And those who are reliance on -- more on the business travel are going to suffer. So you're going to see that -- you're going to see that domestic and international and business travel bifurcation, exactly how that's going to play out is really kind of remains to be seen. And even as was mentioned earlier with places like Europe, domestic travel, in intra-Europe is, it has been depressed a little bit given the fact that they've had some additional lockdowns in some of the countries with the outbreaks there. So it really is -- it's really a country by country, region by region impact. And so putting a precise -- put a precise finger on that is going to be a little bit elusive.

Q - Gautum Khanna

Thank you.

Operator

And with Citigroup we have Andy Kaplowitz for the next question.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Hey, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Andy.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Darius, you talked about accelerating cash deployment in Q1 with the 3 billion that you allocate to high return opportunities, including Sparta. But could you update us on the M&A pipeline you're seeing obviously, we've talked about valuations not being cheap out there, but do you think you can continue to ratchet up M&A over the next few quarters and what you see?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. No, I mean, the pipeline continues to be good. You're right. The valuations are not exactly low, but we're going to -- we're going to be opportunistic. And we're going to look for kind of -- I would call the needles in the haystack and think finding things that work for us, that makes sense for us. We think they exist. And sometimes you got to -- you have to go in places where maybe everybody else isn't running too, because obviously those things have a very, very expensive price tags. And we have some ideas that I think could be pretty interesting for portfolio. So we -- it's a very robust pipeline and we're always working on a couple of things that hopefully will land and anticipate we're going to be doing more deals in 2021, and -- and also looking at other levers of capital deployment as well.

Q - Andy Kaplowitz {BIO 15179203 <GO>}

Thanks guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Now we will hear from Nigel Coe with Wolfe Research.

Q - Nigel Coe {BIO 3818998 <GO>}

Good morning, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Hi, Nigel.

Q - Nigel Coe {BIO 3818998 <GO>}

So just -- just getting back into pool pumps. Just kidding. (Multiple Speakers) I want to go back to the comments about the supply chain constraints in 2Q. And I don't know if you want to try and quantify it. But if you look at normal seasonality, the 1Q to 2Q step-up is that, Greg you talked about, it seems like it might be in the range of maybe $2 million, $3 million. Is that sort of the right range? And where you seen these constraints? Is it mainly in semi, or is it bottlenecks? And do you think, 2Q is sort of peak paying for this and we're getting some -- some of the amount in the second half of the year?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. No, the constraints are significant, and they are in semi. And by the way, just to be very clear. The constraints are reflected in our guide, okay. So I just want to be very clear about that, but the constraints are significant, and they are primarily in our SPS and more specifically (inaudible). Think about it, million of 100 million plus kind of a number, because -- so it's not -- it's not small, it's actually significant. We do think it will abate over the year, but Q2 is a challenge, because frankly the guide could have been even higher and we are working and we've really projected an outlook for the rest of the year and we're looking for alternative source. So actually Torsten Pilz is here. He is our Supply Chain Officer. So Torsten, if you want to provide any color to help.

A - Torsten Pilz {BIO 20687624 <GO>}

Yeah. I think we have two areas, semiconductors is one; and resins as the other one. We believe that the resin impact will subside by the end of Q2, but the semiconductor impact will continue throughout the year.

Q - Nigel Coe {BIO 3818998 <GO>}

(Technical Difficulty)

A - Darius Adamczyk {BIO 18702500 <GO>}

Nigel, you're breaking out. We couldn't hear your question.

Q - Nigel Coe {BIO 3818998 <GO>}

(Technical Difficulty) in the second half or even this is lost sales.

A - Darius Adamczyk {BIO 18702500 <GO>}

I think -- I don't know what you said --

A - Greg Lewis {BIO 20594853 <GO>}

He said lost sales.

A - Darius Adamczyk {BIO 18702500 <GO>}

Is it lost sales. We think it's a push because obviously a lot of these suppliers are not unique. It's obviously being impacted. So it's not as if the demand is going away. So we think that this is probably a push to the second half of the year but we'll see. It's -- we've -- that business has been a really, really nice success story for us. And if we go back a couple of years, maybe it wasn't such a success story. It had a terrific year last year and it just further accelerated this year. And absolutely growing very, very quickly. So, it is still going to have a good quarter in Q2, but it could have been a phenomenal blowout quarter in Q2.

Q - Nigel Coe {BIO 3818998 <GO>}

Great. Thank you very much.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Andrew Obin with Bank of America will have the next question

Q - Andrew Obin {BIO 6337802 <GO>}

Hi. Yes, good morning

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Andrew.

Q - Andrew Obin {BIO 6337802 <GO>}

Yeah, I figured maybe Julian was messing with Nigel's line to keep him from asking too many questions. But who knows? It's a competitive business. Just question on aero, in a very sort of twisted way, we're getting a lot of questions to the fact that your margin in aero is already so high at the bottom of the cycle. And I was just wondering if we could take a longer term view and if you could talk about sort of longer-term levers to keep margin expansion going in this business, both in terms of specific end market recovery, but also operating initiatives?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I think -- I think Q1 was a bit telling, and although, we were very transparent about a $30 million one-timer. Even if you exclude that element, I mean, the margins were still in the upper 20. So I think we demonstrated the credibility of the say, do that. We believe this business can be in the upper 20s. I mean this is a case in point. And take out the 30, and we're still in the upper 20s. So I think that's really important. Yeah, I mean, this may be is in the high point, in sort of the investment profile of Aero. But I can tell you and as Greg pointed out, we are investing in Aero today on some of the major platforms and products. So I wouldn't say it's an all-time low, but -- and our R&D dollars are going up from 2021. And we still expect extraordinarily attractive margins for that business. So I think that it's -- we're investing. It's a great business, and better things are yet to come, which I think may be gets misunderstood, which is a lot of the ATR aftermarket is not kicking in yet. I think the BGA is going to get better. I mean, so we have some brighter things on the future. And even at this kind of business levels, we can print something the upper 20s. So I just think that, hopefully people start believing that this is a very good business, which is going to get even better for the future. Greg?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I would just, maybe just augment that. So as you said, we printed 29%, you take the 30 million out, it's still 28, high 27s. Our long term target that we highlighted was 27. So again, we're there on that. But we're going to continue to invest in so I think this business has done a very good job. And it was obviously, that in PMT were the most impacted by the pandemic. They did a terrific job on their cost management and realigned their cost structure to the size of the business and that's coming through. But, to Darius's point, we're going to make sure that we continue to invest and grow it, we're not going to over earn in print margins that are let's say unhealthy for the long-term viability of the business.

A - Darius Adamczyk {BIO 18702500 <GO>}

Jake, let's take one more question, please.

Operator

And that question will come from Sheila Kahyaoglu with Jefferies.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hey, good morning guys. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hey, Sheila. Good morning.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Good morning. I have to tell Andrew, it was me messing with Nigel's line, so fared up. I guess sticking with Aero, you mentioned commercial OE was up sequentially, business jets was up double digits, I think you said. Was that a surprise what platforms drove that? And related to that, what are you expecting on commercial OE build rates as we progressed throughout the year?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. So, it was definitely up sequentially as highlighted, not really unexpected. We're starting to see some of the build rates recover. It's going to be slow from here. I would say the level we're at right now is going to be kind of a slow ramp from this point. So it's not like we see anything changing dramatically to the upside here, imminently. So -- but not really unexpected for what we've seen. You see what's happening with the -- with the MAX coming back into service and so on. So we feel like we're sized properly for that ramp as we head into the second quarter in the back half of the year.

On BGA, certainly that aftermarket stream, it's just -- it's just going to grow in a faster pace than, than ATR. People are shifting. This is actually a question for the ATR business. People are shifting from commercial travel to business jet travel, that's happening. And so there may be some element of commercial first-class travel that actually from a business perspective, it doesn't fully come back. So we do feel bullish about what we're seeing in the BGA space, particularly. But as I said earlier, there are so many variables. As you know, as well as we do. There are so many variables that go on to this between passenger behavior, airline -- airline behavior, that's a little bit as to why we're going to take this one quarter at a time.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. And just to maybe add to that is, yeah, I think where we have looking forward is, the OE rates slowly increasing. And I think that, that's we have a fairly high degree of confidence in there, throughout this year, particularly second half versus first half, and then increasing even more in 2022. So that's sort of the math. I mean I think we also forget that, as recently as three months ago, I mean some of the infection rates in the US were very, very high and we're in a dramatically different place. So the overall January and then part of February were fairly difficult. But we see -- we see the world slowly coming out of this. And if there is going to be a direct correlation to aviation, and we think this is going to be manifested in the second half of this year than '22 and '23, and we're set up for some very, very nice quarters and years ahead of us, which are going to be slowly ramping up. So we continue to be very bullish on aviation we're investing in the business, but at the same time, 2020 was a good opportunity for us to really rationalize some cost structure, and I think we can lever up nicely as that business starts coming back.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Okay, thank you

A - Darius Adamczyk {BIO 18702500 <GO>}

Okay. I'm proud of everyone at Honeywell. This consistent hard work and unwavering commitment enable us to outperform in this challenging environment. Thank you to our shareholders for your ongoing support. We are well-positioned for the recovery, a strong start to the year, and I look forward to opportunities to come during the balance of 2021 and beyond. Thank you all for listening and please stay safe and healthy.

Operator

Ladies and gentlemen, this does conclude your conference for today. We do thank you for your participation and you may now disconnect.
