Q4 2020 Earnings Call

Company Participants

- Darius Adamczyk, Chairman and CEO
- Greg Lewis, Senior Vice President and Chief Financial Officer
- Mark Bendza, Investor Relations

Other Participants

- Andrew Obin, Analyst
- Jeff Sprague, Analyst
- Joe Ritchie, Analyst
- John Inch, Analyst
- Josh Pokrzywinski, Analyst
- Julian Mitchell, Analyst
- Nigel Coe, Analyst
- Scott Davis, Analyst
- Steve Tusa, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Honeywell's Fourth Quarter Earnings Release and 2021 Outlook. At this time, all participants are in a listen-only mode and the floor will be open for your questions following the presentation. (Operator Instructions) 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, Steven. Good morning and welcome to Honeywell's fourth quarter 2020 earnings and 2021 outlook 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 fourth quarter and full-year 2020, discuss our 2021 outlook and share our guidance for the first quarter of 2021 and full-year 2021. 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 twp. We finished a challenging year with a very strong quarter, driving sequential improvements from the third quarter in sales, segment margin, adjusted earnings per share and robust free cash flow. In the fourth quarter, we delivered adjusted earnings per share of $2.07, flat year-over-year and $0.05 above the high-end of our guidance range. This result was up 33% sequentially from adjusted EPS of $1.56 in the third quarter.

Organic sales were down 7% year-over-year, 4 percentage points better than the high-end of our guidance range and 7 percentage points sequential improvement from the 14% organic sales decline in the third quarter. We drove double-digit year-over-year organic sales growth in Defense & Space, fluorine products and recurring connected software sales, as well as 27% organic growth in Safety and Productivity Solutions, an outstanding result. Our cost plans delivered our full year commitment of $1.5 billion in savings and it helps us protect margins. Limiting our decremental margin in the quarter to only 26%, an improvement from Q3's 29% decremental margin. Segment margin contracted 30 basis points year-over-year to significant improvement from the 130 basis point contraction in the third quarter, driven by our margin expansion in Aerospace, Honeywell Building Technologies and Safety and Productivity Solutions.

We generated $2.5 billion of free cash flow in the quarter, up from $758 million in the third quarter, 9% above Q4 2019, achieving 170% adjusted conversion. In terms of capital, we deployed approximately $2.8 billion of cash to dividends, growth CapEx investments, share repurchases and M&A. We talk more about our recent M&A activity on the next page. For the full year, we deployed $3.7 billion to reduce shares outstanding by approximately 3%. With these strong fourth quarter results, we finished 2020 with $7.10 of adjusted earnings per share and 11% organic sales decline, both above the high-end of our expectations from October. For the full year, we generated $5.3 billion of free cash flow, resulting in adjusted conversion of 105% or 16% of revenue, a very strong result.

There is no doubt that the COVID-19 crisis created significant challenges for the business and economies around the world. I'm very proud of Honeywell's ability to rise to the challenge to deliver strong execution and sequentially improving results throughout the year.

Next, let's turn to slide three to discuss our recent M&A activity. I'm pleased with the progress we made in actively reshaping our portfolio and our recent M&A

announcements directly aligns with our ongoing transformation into a premier software industrial company. In the fourth quarter, we completed three acquisitions announced before, all which meet the rigorous criteria in our M&A framework, which ensures that transactions are aligned with our portfolio strategy and meet our return expectations.

We've previously discussed the acquisitions of Rocky Research and Ballard Unmanned Systems, which provides emerging technologies aligned to strategic initiatives in our Aerospace business, as well as our strategic investment with path to full ownership in Trinity Mobility, which supports our smart cities breakthrough initiative in Honeywell Building Technologies. In mid-December, we acquired Sine Group, a technology and Software-as-a-Service or SaaS company that provides visitor management solutions that are readily accessible for mobile devices. Sine's technology will enhance our connected building offerings and will also support a mobile platform for a broader portfolio of Honeywell Forge offerings. We will expand on Sine's features and solutions and make Sine's product available to customers globally.

Most recently, we announced an agreement to acquire Sparta Systems, a leading provider of enterprise quality management software for QMS for the life sciences industry for $1.3 billion. We previously highlighted the importance of the life sciences market as a breakthrough growth initiative. The acquisition of Sparta further bolsters our software, controls and analytics capabilities in this space. Sparta's AI-enabled SaaS offering will combine with Honeywell Forge to provide greater value to our life sciences and pharma customers. Additionally, Sparta complements our growth strategies for the automation and digitization business within Honeywell Process Solutions, enabling greater penetration in Life Sciences and the Pharma market segments. Sparta will further bolster Honeywell's portfolio of accretive, non-cyclical, recurring connected software sales.

I'm excited about the new technologies and adjacencies we have unlocked through our recent acquisitions and investments. We said before that we have an active M&A pipeline and this series of acquisitions is further evidenced that we are continuously evolving our portfolio and investing in new opportunities. We also evaluate our portfolio for areas that are no longer core to our long-term objectives. Earlier this week, we signed an agreement to sell our performance and the lifestyle footwear business to leading manufacturer of premium footwear and apparel, Rocky Brands. The transaction values approximately $230 million and is scheduled to close by the end of the first quarter. Our SPS business will continue to provide industrial safety footwear for workers. M&A is just one important part of our broader capital deployment strategy, which also include share repurchases, dividends and capital expenditures.

Let's turn to the next slide to view our total capital deployment. In 2020, we continued to demonstrate our commitment to identifying and investing in high return opportunities that help reshape the business for software-oriented future. Over the past three years, we have consistently deployed more than 100% of operating cash flow to fund share repurchases, dividends, M&A and capital expenditures. 2020 was no exception. Even during a global pandemic, we deployed $7.5 billion of capital, essentially equal to the prior two years, demonstrating our commitment to invest in high return opportunities in any environment.

Now, let's turn to slide five where Greg will discuss our execution record in a downturn.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius and good morning, everyone. We showed a slide similar to this one during our December investor webcast and I want to highlight again here today because I think it nicely summarizes our ability to manage through tough times. Our execution through this year's downturn clearly demonstrates our ability to move quickly and decisively to reduce fixed cost, to protect margins, to ensure liquidity, invest in growth and position ourselves for recovery, while at the same time, we maintain focus on our three transformation initiatives; Honeywell Connected Enterprise, Honeywell Digital and the Integrated Supply Chain.

At the beginning of the pandemic we first acted quickly to address our liquidity and cost structure. Our strong balance sheet provides us with stability as well as the opportunity for investment during challenging times. And as you saw from Darius, we took advantage of that. Through a series of actions to further bolster our financial flexibility, we increased our cash and short-term investments from approximately $10 billion at the end of 2019 to over $15 billion by the end of the second quarter if we maintain through the end of the year, demonstrating our ability to generate strong cash flow and efficiently access the capital markets during even the most disruptive times, all while protecting our debt ratings.

On the cost side, we respond to SaaS and early to the crisis by identifying and delivering on a two phase cost program, which achieved $1.5 billion in year-over-year fixed cost savings as we had committed. Approximately 70% of these savings or about $1 billion represent a permanent reduction to our fixed cost base. To achieve this, we curtailed discretionary expenses, took temporary actions to reduce costs, including reducing Executive and Board pay and removed significant structural cost through our repositioning programs. Our streamlined cost base positions us well for a 2021 recovery and will drive margin expansion across all four of our segments, as well as capacity for investment as sales recovers in 2021 and beyond.

As Darius described on the previous page, we strategically deployed capital to drive returns and position our business for future growth. Importantly, we also directed resources to address our customer's COVID-19 challenges around the world. We deployed additional capital (inaudible) high return growth investments to address urgent customer needs, particularly in Personal Protective Equipment and warehouse automation. We're also helping the world cope and recover from the effects of COVID-19 through our new portfolio of healthy solutions. We generated approximately $655 million in sales for our healthy solutions in 2020, and we have a pipeline of approximately $2.1 billion, which will drive growth again in '21.

As result of our swift actions during the downturn, 4Q decremental margins were limited to 26%, including 33% in 2Q and 29% in 3Q, and demonstrating our ability to protect our margins in a very difficult environment. We are clearly well positioned for a variety of outcomes as the recovery progresses into 2021 and beyond, and our shareholders are benefiting from that with a total shareholder return of 23% in 2020, which was over two times greater than the XLI.

Now, let's turn to slide six to discuss our fourth quarter results in a bit more detail and our 2021 outlook. As Darius highlighted, we delivered a strong fourth quarter to end 2020 with sequential improvement from third quarter on all our key financial metrics. Sales declined by 7% organically due to the effects of the COVID-19 pandemic, which was 4 percentage points better than the high-end of our guidance and represented 7 percentage points sequential improvement from the 14% organic sales decline in the third quarter, driven by sequential sales growth from the third quarter in all four segments.

Starting with Aerospace, fourth quarter sales were down 19% organically, a 6 percentage point sequential improvement from the down 25% we had in the third quarter. Lower commercial aftermarket demand due to the ongoing impact of reduced flight hours and lower volumes in commercial OE equipment was partially offset by double-digit growth in Defense and Space. Though still down significantly year-over-year, our commercial aftermarket business did improve sequentially from the third quarter. Our air transport aftermarket business was down 48% organically in the quarter compared to 65% in Q3 and our business aviation aftermarket was down 6% organically compared to 28% in the third quarter.

Moving on to Building Technologies, sales declined 4% organically, a 4 percentage point sequential improvement from the 8% down in 3Q. Building Solutions projects were impacted by timing due the customer order pushouts we saw earlier in the year, which was partially offset by growth in services. Customers are now placing orders for projects that they had previously delayed. As a result, orders in Building Solutions grew 32% year-over-year and the services backlog was up double-digits year-over-year to finish the fourth quarter, positioned the business well for '21. On the building product side of the portfolio, sales and orders improved sequentially from the third quarter and the commercial fire business return to year-over-year growth.

In PMT, sales were down 12% organically, a 4 percentage sequential improvement from the 16% organic decline in 3Q. Process Solutions was impacted by continued delays in projects and services, as well as volume declines in thermal solutions and smart energy due to end market softness. However, Process Solutions orders were up 30% sequentially from Q3. UOP continued to be impacted by weakness in the energy end markets though sales improved sequentially from the third quarter across the UOP portfolio and orders were up 21% versus the third quarter as well.

Finally, Advanced Materials sales increased 8% year-over-year organically, driven by growth across the fluorine products portfolio, including strong auto and firm [ph] demand. In SPS, organic sales were up 27% year-over-year, a very strong result to end the year in which the SPS team stepped up to meet unprecedented demand for critical safety products. Intelligrated and Personal Protective Equipment led the way with another quarter of double-digit organic growth followed by high single-digit growth in Productivity Solutions and Services. We are encouraged by the turnaround that team has orchestrated in 2020. SPS exited 2020 with a backlog of approximately $4 billion, which was nearly double our backlog at the end of 2019, placing the business in a very strong position to start 2021, where we expect to see a robust first half in particular.

Overall, we expanded margins year-over-year in three of the four segments; Aerospace, HBT and SPS, limiting Honeywell's overall segment margin contraction to 30 basis points and ending the quarter with a segment margin of 21.1%. This was a sequential improvement of 120 basis points from 3Q segment margin of 19.9%, an improvement of 260 basis points from the 2Q trough, demonstrating the effectiveness of our response to the pandemic, in particular, our cost actions and operational rigor.

We delivered cost actions in the fourth quarter that brought us to $1.5 billion in savings for the year, right at the stated range that we had highlighted earlier, limiting our full year margin contraction to 70 basis points, despite the challenging operating environment. We delivered adjusted earnings per share of $2.07 flat year-over-year and a 33% sequentially from adjusted EPS of $1.56 in the third quarter. This result was $0.05 above the high-end of our guidance, driven by a higher segment profit due to better than expected sales volumes in Aerospace, HBT and SPS.

Given the strength we saw in the fourth quarter, we were able to make discrete investments in the business and our employees, including in IT, marketing spend for Forge and brand expansion in the Middle East and China, as well as a special $500 Recognition Award for our ISC front-line production and production support employees who performed so greatly and well through this crisis, repositioning with lower than in 4Q a year ago. As expected, driving a $0.15 year-over-year tailwind below the line. Interest income and foreign currency were lower than 4Q '19, driving a $0.07 headwind below the line, which was offset by higher pension income. Our effective tax rate and share count were also lower than in the fourth quarter of '19, driving $0.02 and $0.04 of EPS benefit, respectively. A bridge from 4Q '19 adjusted earnings per share to 4Q '20 can be found in the appendix of this presentation.

I'm also proud to report that our fourth quarter cash flow generation is very strong. We generated $2.5 billion of free cash flow, up 9% year-over-year, resulting in adjusted free cash flow conversion of 170%. Free cash flow and conversion, both improved year-over-year due to working capital improvements, including (Technical Difficulty) and strong collections. Our team has put an extra focus on cash in the fourth quarter and really delivered and we expect to continue this progress in '21, particularly on inventory. In terms of capital deployment, we paid approximately $670 million in dividends, repurchased $1.6 billion of Honeywell shares, over delivering on our commitment of 1% share count reduction in 2020. We invested approximately $300 million in CapEx and deployed over $250 million to complete three acquisitions. So, all in all, a very strong fourth quarter to close out 2020.

Now, let's turn to slide seven to talk about our 2021 planning assumptions. We hope and expect that the worst is behind us as we move on from 2020. We are seeing promising signs of recovery unfolding, but there continue to be a few key uncertainties to be mindful of. Over the past couple of months, we've seen governments around the world approve multiple effective COVID-19 vaccines and begin rolling them out. Our current view of '21 assumes the vaccines are widely distributed, leading to lower manageable infection rates over time and allowing the global economy to largely reopen and stabilize.

However, many regions have recently been coping with a new wave of infections and lockdowns, new COVID strains and vaccine distribution challenges, so it remains unclear when exactly infection rates will slow down materially and the economic recovery will really accelerate. As a macro planning assumption, we're expecting the recovery to be weighted in the second half of the year and are expecting to experience a little bit of a slower start in 1Q.

We're assuming fiscal stimulus remains supportive of the economy in '21. We do expect passengers will begin flying more freely again as the vaccine rollout begins, leading to a modest improvement in global flight hours in the first half and acceleration in the second half. Though this is one area where we are seeing some of these softness, particularly in China and APAC as the year begins. We also expect stability in defense budget spending. And finally, we assume improved macro conditions broadly will drive moderate increase in oil consumption in the second half of the year.

Given that, let's turn to slide eight and discuss our markets and segment outlook. Starting in Aerospace, the previously mentioned increase in flight hours as the pandemic subsides will gradually lead to improvements in our Commercial Aerospace business, as aftermarket demand accelerates, particularly in the second half. However, we expect recovery in the Commercial OE business to lag the commercial aftermarket recovery due to the gradual ramp in commercial OEM build rates. Stable defense spending should support continued growth in our Defense and Space business, the latter reduced pace versus the double-digit growth we experienced in 2020. In total, we expect the Aerospace business to be flat to up low-single digits in '21.

In HBT, we expect the non-residential market to remain relatively stable in '21. We anticipate solid demand for building products and management systems in key verticals, including data centers, warehousing and healthcare. However, in other verticals including hospitality and commercial offices, we expect them to remain challenged as the world recovers from the effects of the pandemic. These challenges will be partly offset by the traction we have been dealing over the past couple of quarters with our healthy building solutions with key wins in education, commercial offices, healthcare and some government verticals.

Our solutions address key customer concerns, including air quality, social distancing and controlled (inaudible) access and we expect continued demand through the year. Building Solutions ended 2020 with a quarter of strong year-over-year orders growth, which positions the business well for '21. And we expect customers to continue placing orders that they deferred in '20, as the macro economy recovers. We also have a robust services backlog that is up strong double-digits year-over-year and will support 2021 growth. We don't expect building access to be a significant issue in '21, so we don't anticipate any material challenges getting on sites to complete projects. In total, we expect HBT to grow low single-digits for the year.

In PMT, we expect the oil and gas and petrochemical markets to remain relatively flat with oil consumption picking up slightly in the second half. We expect the HPS recovery to be led by our large backlog of global mega projects and the products businesses. In UOP, we expect the energy markets to remain challenged through the year, particularly in the first half. However, we expect business conditions will recover soon for petrochemical and oil and gas. We anticipate increasing investments in renewable fuels, which will drive demand for our new sustainable technology solutions business and partially offset challenges in the oil and gas market. In addition, the specialty chemicals market is expected to grow modestly in '21 with strength in global healthcare, automotive and residential construction end markets, driving demand for advanced materials. Overall, we expect PMT to be down slightly to up low single-digits for the year.

Lastly in SPS, we expect continued strength in warehouse automation and Personal Protective Equipment as we execute the delivery of our robust backlog. We also expect Productivity Solutions and Services to grow as the strategic turnaround in the business drives market share gains and we expect gas sensing to recover in line with the market. In total, we expect SPS to grow double-digits in '21 with comps getting tougher in the back half as we lap strong growth in the back half of 2020. So overall, we see improvement across most of our key end markets in '21 and we have confidence in our continued operational execution. The pace of the recovery may vary due to the items we discussed on the prior slide, so we are taking a cautious approach as we begin the year.

Now, let's move to slide nine to discuss how these dynamics come together for our 2021 financial guidance. For 2021, we expect sales of $33.4 billion to $34.4 billion, which represents overall organic growth -- sales growth in the range of 1% to 4%, reflecting double-digit recurring connected software growth and the impact of our announced M&A and divestitures. Segment margins are expected to expand 30 basis points to 70 basis points, supported by higher sales volumes and our streamlined fixed cost base, following 2020 cost actions with investment for growth. While we expect margin expansion across all the businesses, SPS will lead the path as we scale up capacity and become more efficient, followed by aero, driven by high margin aftermarket recovery. These organic growth and segment margin expectations are consistent with our long-term commitments for low to mid single-digit organic growth and 30 basis points to 50 basis points of margin expansion and give us flexibility to deliver earnings growth and invest for the future.

2020 was a challenging year, but we'll be back on track to deliver our standard commitment to shareholders in 2021 and beyond. The net below the line impact, which is the difference between segment profit and income before tax is expected to be in the range of negative $130 million to positive $20 million, which includes capacity for $400 million to $525 million of repositioning. We expect an 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 guiding earnings per share of $7.60 to $8.00, up 7% to 13% adjusted.

We see free cash flow in the range of $5.1 billion to $5.5 billion in 2021. That represents cash margins of 15% to 16% of sales, commensurate with the 2019 and 2020 rates that we have demonstrated and a cash conversion in the 95% range. Keeping in mind that our conversion, excluding non-cash hedging income would actually be approaching 115%. So, very healthy odd numbers overall. This range does include $375 million that we expect to receive in an upfront payment from Garrett, resulting from their proposed plan of reorganization.

We'll continue to include cash receipts from Garrett going forward within free cash flow in order to be comparable to prior periods, where the cash proceeds from the indemnification and reimbursement agreement will recognize. And just to spend a minute on that topic. We are pleased that Garrett has agreed to the plan of reorganization under which they will be recapitalized and well positioned to meet their obligations, including those to Honeywell and will avoid costly litigation. We believe this is the right path forward that maximizes value for all stakeholders.

Now, let's turn to slide 10 and walk through our 2021 EPS bridge. Segment profit is expected to be the key driver of our earnings growth, higher sales volumes, commercial excellence, continued productivity improvements and ongoing benefits from previously funded repositioning will contribute $0.54 per share at the midpoint of our guidance. The impact of our acquisitions of Sparta, Sine and Rocky Research and the divestiture of the retail footwear business will drive a $0.07 headwind at the midpoint. Below the line and other items are expected to be a $0.22 benefit per share at the midpoint of our guidance, primarily driven by higher pension income in '21 compared to 2020.

I'd like to take a moment to discuss those pension dynamics in a little bit more detail. We expect approximately $1.1 billion of pension and OBEP income in '21, up approximately $260 million from 2020 with the majority of this increase related to our US pension plan. We had de-risked our US pension plan to approximately 60% of plan assets being in a more conservative fixed income like assets and the remainder in returning seeking assets. As result of another strong portfolio performance in 2020, our funds returned approximately 14%, increasing our pension asset base compared to the prior year. This higher asset base combined with lower discount rate is driving higher income in 2021.

Our diligent management and strong returns have been an important value driver for the company, putting us in a position where our pension funding status continues to be robust ending the year at 113%. For taxes, we expect an effective tax rate of 21% to 22%, which could result in a $0.06 headwind per share at the midpoint. And finally, our base case is that our share repurchase program will result in a benefit of $0.07 per share, as we reduce our weighted average share count from 711 million to at least 705 million shares. So in total, we expect 2021 earnings per share to be in the range of $7.60 to $8.00, up 7% to 13% year-over-year adjusted, nearly back to 2019 levels.

Now, let's turn to slide 11 for a preview of the first quarter. As I noted earlier, we're entering 1Q with a cautious stance as the environment continues to evolve real time, which is driving a wider than usual range per quarter. We expect organic growth in the first quarter in the range of down 10% to down 5% organically, which brackets our fourth quarter sales growth performance, recognizing market conditions could vary. The year-over-year sales decline will be driven by continued headwinds in commercial aerospace and UOP, partially offset by ongoing strength in warehouse automation, PPE and advanced materials, as well as gradual recovery in other areas of the portfolio.

Keep in mind, 1Q will be our toughest comp for the year across all four segments, since the first quarter of last year it was only partially disrupted by the COVID pandemic. We expect segment margins in the range of 20.4% to 20.9% in the first quarter, slightly below the fourth quarter based on lower sales leverage, given our usual sequential step down in sales from 4Q, partially offset by ongoing productivity. That represents year-over-year segment margin contraction of 140 basis points to 90 basis points. We have positioned ourselves with a streamlined fixed cost base for '21 and expect sequential segment margin improvement from the second quarter on.

The net below the line impact is expected to be between a $40 million expense and a $5 million benefit with a range of repositioning between $100 million and $140 million, as we continue to fund ongoing restructuring programs. We expect the effective tax rate to be in the range of 23% to 24% and the average share count to be approximately 705 million shares. As a result, we expect first quarter earnings per share between $1.68 and $1.83, down 24% to 17% year-on-year.

Now, let's take a moment to walk through our expectations by segment. In Aerospace, we expect first quarter global flight hours to remain relatively flat in the fourth quarter. We could see a step back in 1Q in certain regions, given the flare up in infection rates over the holidays. As a result, we expect current softness in flight hours to continue impacting our air transport and in aviation market sales in the first quarter. In addition, lower air transport OEM build rates and lower business jet demand will continue to impact our commercial original equipment business. We expect Defense and Space to partially offset the challenges in commercial aerospace, supported by stable US Defense segment.

In Building Technologies, we expect business conditions to remain similar to conditions in the fourth quarter. We don't expect significant issues accessing our customer sites as I mentioned earlier, which will enable us to deliver projects as normal. Our strong Building Solutions services backlog to drive growth in the quarter and we expect demand for building products to continue improving. In addition, we expect continued customer momentum with our portfolio of healthy building solutions.

In PMT, we expect continued customer CapEx and OpEx budget reductions and project delays to impact the engineering and licensing business in UOP and projects and services in HPS. In UOP, we expect continued weakness in gas processing and lower catalyst shipments due to the lower production and refining volumes. However, we do expect to see some demand return in Process Solutions product businesses and we expect another strong quarter from advanced Materials, driven by continued demand in fluorine products.

Finally, we expect continued strength in SPS with another quarter of double-digit growth in Intelligrated and Personal Protective Equipment. Our Personal Protective Equipment backlog remains up triple digits year-over-year and our Intelligrated backlog is over $2.5 billion, giving us confidence for the first quarter and the full year. For Productivity Solutions and Services, we expect continued growth driven by market share gains and low inventory levels in the channel, due to favorable sales out of distributors. While macro conditions continued to put pressure on the sensing and IoT and gas sensing businesses, we expect strong overall SPS sales growth for the first quarter.

Now, before I turn it back to Darius, let's look at slide 12 and talk through the ultimate measure of our performance through this crisis, total shareholder return. We're creating shareholder value in outperforming the industry in the broader market in all environments. If you look at this chart, you will see that Honeywell has shown remarkable consistency, outperforming both versus the XLI and the Dow Jones Industrial Average, indicative of the outstanding resiliency of the company.

Investors can depend on Honeywell to generate superior return compared to the benchmarks regardless of market timing due to our rigorous and proven value creation framework, as well as the Honeywell operating system. This crisis reinforce the fact that our value creation framework, which we discussed at length in our December investor webcast is highly effective in delivering consistent outperformance in all marketing conditions. In fact, this framework drove Honeywell shareholder returns above both the XLI and Dow Jones Industrial Average again in 2020.

So with that, I'd like to 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 13 to discuss one of the key elements of our overall ESG story. Last quarter we discussed Honeywell's commitment to shape a safer and more sustainable future. This time, I'd like to focus on another important topic, corporate social responsibility.

Honeywell is committed to corporate social responsibility and community involvement, which we demonstrate through unique global programs to look to improve lives and inspire change in the communities around the world. Beyond these programs, we acted quickly throughout the course of the pandemic to address the needs of our employees, communities and customers.

A few of our more recent actions are shown on this slide. Most recently, we announced our participation of unique public-private partnership backed by North Carolina Governor Roy Cooper to help support the goal with 1 million COVID-19 vaccinations by July 4, 2021. We have partnered with Atrium Health, Tepper Sports & Entertainment, the Charlotte Motor Speedway, the state of North Carolina to administer the vaccine, manage complex logistics and to provide operational support for mass vaccination events. We're very proud of -- to be part of this effort to prevent further spread of the virus by helping frontline workers and other members of our communities to get vaccinated.

Another recent example of Honeywell's contribution to our communities is the important mask delivery milestone we achieved in December, where we delivered more than 225 million face masks to help protect workers in their response to COVID-19. We delivered N95 respirators and surgical face masks to multiple locations in the US for healthcare systems, the Federal Emergency Management Agency and the US Department of Health and Human Services. In addition, we shipped millions of masks to both state and local governments. We are proud of these contributions and our role in providing much needed PPE to workers around the country, responding to the pandemic.

Finally, we are also committed to recognizing and respond to the needs of our employees. We recently recognized the dedication and strength of our own frontline Integrated Supply Chain production teams, who have been instrumental in keeping our manufacturing sites running safely, enabling us to meet critical customer needs during these unprecedented times. To show our appreciation, we announced a special $500 Recognition Award for each of our frontline production and production support employees. We continue to be inspired by the members of our Integrated Supply Chain team who have truly gone above and beyond to support our customers throughout this pandemic.

Now, let's wrap on slide 14. There is no doubt that 2020 was a challenging year. However, we effectively managed through the downturn, the repercussions of the global pandemic by focusing on liquidity, cost management, strong operational execution and investment for the future. We drove sequential improvement from the third quarter in sales, segment margin, adjusted earnings per share and free cash flow, creating good momentum into 2021. The past year was another proof point that the Honeywell value creation framework delivers outperformance even in the most challenging economic and market conditions.

We continue to invest in organic and inorganic growth opportunities in the downturn to high return CapEx and M&A, positioning ourselves for the future and the recovery to come. These growth investments will help us solve challenging problems for our customers, address critical global sustainability issues and drive superior shareholder returns. I'm proud of Honeywell's rapid and effective response to the challenges of 2020. Our employees around the world work hard to quickly adapt and deliver through the crisis, including ramping up production of critical PPE, developing our portfolio of healthy solutions and delivering growth in multiple areas of the portfolio. We are well positioned for a recovery in the second half of 2021 and beyond, as demonstrated by our expectation to return to our key long-term growth commitments for 2021.

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

Mark Bendza {BIO 21178179 <GO>}

Thank you, Darius. Steven, give us a moment while we gather here for Q&A.

Operator

Absolutely, sir.

Mark Bendza {BIO 21178179 <GO>}

Okay, 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.

Steven, please open the line for Q&A. Thank you.

Questions And Answers

Operator

The floor is now open for questions. (Operator Instructions) And we will now take our first question from Nigel Coe with Wolfe Research. Please go ahead.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks, good morning, everyone. Thanks for the detail on the guidance. So, your 1Q sales guide, I just wanted to just dig into that. You provided some good general detail on what are you expecting. But the midpoints have not set down, very similar to what we saw in 4Q, but much easier comps. So, I'm just wondering, was there anything unusual in 4Q? Any budget flushes? There's some speculation there is some pre-order activity from other companies, et cetera. So, I'm just wondering if you've seen -- tight supply chain causing some bringing forward of demand that maybe causes the sales guide to be essentially flat Q-over-Q with what you saw in 4Q?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I don't know that there was anything unusual in Q4. I mean, I think obviously, we kind of see our continued ramp-up of our SPS business, that will continue, but it does start flattening at some point. PMT basically came out about as we expected. As we know the UOP business particularly is lumpy and the mix of the catalyst ship can very dramatically. I think if you look at overall, COVID is a big play in this and I would say, especially if you compare the COVID situation early in Q4 versus where we are now, we're in a much worse place. I mean that's -- obviously that had some weight on that.

And frankly, we really thought about whether or not we should guide Q1 at all. I mean I think that we're in a place that the level of infection throughout the world is the highest it's ever been right now. And there's a lot of uncertainty, but we thought we give sort of our best effort and provide a little wider range to normal to give our investors some of our best really educated view of where we think we are going to end up. But there's a lot of -- there is more uncertainty this quarter and probably, Greg, you want to add.

A - Greg Lewis {BIO 20594853 <GO>}

Yes, I mean, even for all of us, traveling is a question mark. If you read the journal this morning, they talked about the airlines and concerns even in the US about whether there's going to be testing requirements put in place for domestic travel. We know that, that's been put in place already on international travel. So yes, to Darius's point and I just think there are some things out there that are really kind of hard to predict. But as I said in my remarks, I mean the -- the down 10% to down 5% kind of brackets to down 7%, we had in the fourth quarter. The down 10% is in case something gets worse, that we don't really can see this moment. But it could be better than that if things progress. So no, nothing -- there's nothing strange. We always have a fourth quarter to 1Q decremental sequential sales. 4Q is always our strongest quarter. So, nothing unusual in there.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. And just to add to that, I think actually predicting that sort of in line is probably not that unusual. And Aerospace, which obviously, is our biggest business, the thing to consider is, if you look at infection rates and in fact, at least in the western world, you had holidays, the air miles flown could be actually down and we see that. We actually given some of the outbreaks that we saw earlier this quarter in China and Asia-Pac specifically is where we're seeing some pressure. So, that's sort of the -- that's sort of the puts and takes of the quarter.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks very much.

Operator

And we will take our next question from Steve Tusa with J.P. Morgan. Please go ahead.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey guys, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Steve. Morning.

Q - Steve Tusa {BIO 4278663 <GO>}

Wish I had time to read the journal this morning, that's impressive. You can read the journal on earnings day, you must have it all wrapped up there. Just on the margin side, pretty decent margin expansion guided for this year. Assuming you guys do better on sales, would there be any reason as to why those margins would be weaker than you're guiding to, or do you think that if you to a little better on sales, you can still kind of convert at a -- at this high level?

A - Greg Lewis {BIO 20594853 <GO>}

Yes. So Steve, I think what we tried to do is position ourselves this year for anything. So, I mean if we guided something we feel like is very much deliverable in that 30 basis points to 70 basis points range. And if sales actually turn out to be better, I think two things can happen. One, we could convert a bit of a higher rate, but two, we may invest more back in the business. We have some important things to get done in Aerospace from an R&D perspective. We are funding some of that already. If things get better, then we think that we could let the line out a little bit further.

So, if you look at our conversion in the last three quarters of this guide, it's really converting like 37%. Just the math -- the math says 37% conversion rate in Q2 through Q4 with this guide. So, we think it's a pretty strong rate of conversion as it stands right now and we're trying to give ourselves optionality to both deliver earnings as well as make sure we've got some room for investments.

Q - Steve Tusa {BIO 4278663 <GO>}

Is that high 30 basis points sustainable? Is that high 30s kind of a sustainable rate going forward?

A - Greg Lewis {BIO 20594853 <GO>}

I think that remains to be seen. We're very, again, we're very confident that now that we're -- this 30 basis points to 70 basis points this year gets us right back in the 30 basis point to 50 basis points long-term framework that we've been consistently able to deliver. So, that's what I just want to say about that.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean I think couple of points. First of all, Steve, if you take a look at our conversion rate for 2021 versus that with the deconversion and your deleverage ratio, it's better, right. And it's -- and we project that in Q2 to Q4. The wildcard in a lot of this is aero aftermarket, right. I mean, that is probably the single hardest number for us to call, because it is directly correlated to vaccinations and the speed of those vaccinations rollout. If that comes in better than we're projecting, then obviously, there is upside to the margin rates. If it doesn't, well, then you're probably going to be someplace in the mid to lower.

But I think it's really important to note something else, Steve, which is, if you look at the upper end of our margin rate for 2021, I mean we get back to 2019 levels. I mean, so basically we're kind of taking a one-year break and initially there were discussions about whether to take three years or two years to get back to that. And we're kind of getting both on the EPS range and so on, pretty much to 2019, and of course, so it's sort of one year break. But as usual we're trying to be prudent in our planning. There is early on in the year with this many unknowns, with divesting at levels that world has never seen. So, we're trying to embed that into our guidance and obviously we're going to provide you more clarity as the year progresses.

Q - Steve Tusa {BIO 4278663 <GO>}

Got one more quick one. Will you guys pretty much track flight hours in commercial aerospace aftermarket or will there be kind of a lag like some have talked about?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, there is a little bit of a lag. But there'll be a correlation eventually. So, as you know, those numbers are kind of correlated. So, as we track the flight hours travel, there might be a bit of a lead lag but the correlation is there.

Q - Steve Tusa {BIO 4278663 <GO>}

Thanks.

Operator

We will take our next question from Scott Davis with Melius Research. Please go ahead.

Q - Scott Davis {BIO 2393277 <GO>}

Hey, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Scott Davis {BIO 2393277 <GO>}

I'll keep to one question, but hopefully, you guys can answer it a little bit more broadly than perhaps what I'm asking directly. But can we talk about Intelligrated and just kind of how scalable it is. I mean your margin is rising as you grow. I know the install isn't necessarily all that profitable? But are you actually seeing an improvement in margin structure, perhaps because of the supply and demand imbalance, maybe better pricing that's leading to better margins? I'll just leave it at that and if you can give some color there would be great.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, let me just start out and if Greg wants --. I don't think we're expecting dramatic margin improvement in Intelligrated in 2021 and let me explain why. The reason is that we are just booking an incredible amount of greenfield projects. You saw it was another incredibly robust year in terms of bookings. We expect double-digit growth again. And particularly, what's really important is to look at the ratio of our aftermarket business to our projects business and as you can imagine that's not changing or if anything probably the projects are growing that much faster than aftermarket.

So obviously, that was going to keep pressure on the margin, but we should view that as a good news thing because as I explained this before, eventually when the growth slows down that the growth rate will be slower, but the margin rate will be higher. But we're still going be very much in this greenfield expansion mode for the next few years, which means higher growth rates, lower margins, which over time is going to moderate to lower high top line growth rates and higher margins. That's sort of how that business is going to grow. What's really encouraging here is the amount of share that we're gaining in the marketplace. There is unquestionably this business is winning and winning big in the market.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. And I would just add your question about scale that's, we talked about some of our growth investments and some of them are here to scale this business. So, we are making investments in capacity and scaling up as we go, both here and in Europe to -- because again, that was also part of the plan as well broadening our reach beyond just the US. So, that's a big focus for this team, the scale question is one of the biggest things that they have on their plate and making nice progress.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. Good luck, guys. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks.

Operator

We will take our next question from Andrew Obin with Bank of America. Please go ahead.

Q - Andrew Obin {BIO 6337802 <GO>}

Hi, guys, good morning, sort of continuing with sort of Scott's angle. Another business, you announced a deal with SAP on the building solutions and you didn't provide a lot of details, but since then, I think Latch has published an extensive depth, talking about very, very aggressive market growth targets. I was just wondering if given that there is a competitor there with aggressive targets for market growth, if you could just talk about maybe in a little bit more detail about opportunities that you are seeing in sort of software on the building side as this business is evolving.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean couple of things. Number one, so, we're seeing very strong double-digit growth in our connected buildings offering. The SAP partnership is working. We're actually still innovating together, we're launching aggressively -- even more aggressively into the marketplace this quarter, next quarter as we complete some of that joint innovation. Just to give you a perspective, across all of our business units, this will give you a hint as to how well this business did. Honeywell Connected Buildings business won the Business Unit Of The Year across all of Honeywell. So, that will tell you a lot about its financial performance.

So, that business is growing as fast as any business we currently have, getting traction with the SAP partnership, but we're also getting traction in the marketplace. And frankly, it's a gap that's unfilled and we don't think that there is anything out there that is comprehensive in terms of our Connected Building Solutions what we have, which really covers the full scope of energy management, occupant comfort, safety, overall maintenance footprint. So, it's really comprehensive just about anything and everything related to a building. And that business is, think about high double-digit growth kind of numbers.

Q - Andrew Obin {BIO 6337802 <GO>}

Thank you.

Operator

We will take our next question from John Inch with Gordon Haskett. Please go ahead.

Q - John Inch {BIO 1793553 <GO>}

Thank you. Good morning, everybody.

A - Greg Lewis {BIO 20594853 <GO>}

Morning.

Q - John Inch {BIO 1793553 <GO>}

Darius and Greg, under -- good morning, under what scenario would PMT sales be negative in terms of your range to the low end of your guide? And I'm just thinking out loud, you do have other buildings publishers and floorings which is going to be really good. I would think there is UOP catalyst reload likely next year based on pent-up demand. Then we've got commodity prices higher. I'm just wondering how that actually plays into your thinking for the segment, both in terms of sales and margins. And I think PMT decrementals were about 50% or over that in the fourth quarter. So, can you kind of, think about it and I'm claiming [ph] bunch of stuff into my one question. So, there you go.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, John.

A - Greg Lewis {BIO 20594853 <GO>}

Maybe it's a good adaptation.

A - Darius Adamczyk {BIO 18702500 <GO>}

The answer is defined. This is all about UOP, let's start with that, right. The advanced materials were pretty comfortable with the growth profile, HPS, was kind of over and up in what we're going to do, which is growth. UOP is a little bit of an unknown, right, because what we've seen can happen is that lot of the catalyst loads or re-loads get pushed out of projects, get pushed out. To give me some comfort is that our bookings in the backlog are higher entering 2021 versus what they were in 2020. So, I am cautiously optimistic, it's -- we're going to see growth, but we've also seen some push outs of particularly catalyst loads and delaying in projects and if that happens, obviously we're going to have see pressure from the UOP side.

And frankly, the price of oil is at a reasonable number right now, it's not in the 30s or 40s, now it's in the 50s, which is quite receptive to investment. What worries me is that a lot of the big oil and gas majors who are our customers set their budgets just like we do in Q4 of 2020. So, and they've announced some pretty big cuts. So, what we don't know fully as are those, are there going to be adjustments made based on the economic conditions, based on adjustments to those budgets. There is a point, there is definitely a pent-up demand, because you can't underfund this marketplace for too long. So, whether that happens in the second half of this year or 2022, that story is yet to be told.

But what we don't know is we still have a lot of sort of bookings that we expect for the second half that we have visibility to but they need to land. And that's why we provided the guidance we did because we don't know whether or not they will land or they will get pushed out to '22. But I have zero doubt and I mean zero doubt because I was in this business in '15 and '16 that there will be a big reinvestment cycle because you can't start this market for so long and that's why it's sort of, we can debate when it will come, but there is no undoubtedly it will happen.

A - Greg Lewis {BIO 20594853 <GO>}

And if I could just because you mentioned margins as well, I think the thing you have to keep in mind there is, is two. Number one, as Darius described, the catalyst obviously, pretty high margin and so that impacts our mix. And then the other thing is we are executing on a lot of the gas processing business that we had won back in 2019 and 2020 and a lot of that's in high growth regions. So, you can imagine there is a lower margin aspect of some of that business as well that we're actually executing here through 2020. So, that's been an impact to the PMT margins when you take away the catalyst business and that becomes a bigger share of the overall PMT -- sorry, yeah PMT mix, in UOP in particular.

Q - John Inch {BIO 1793553 <GO>}

Okay, just to make sure I understand. If a reload does happen, that's possibly very significant upside to the guide, but for now, you're not assuming that? So, I'm assuming PMT is probably kind of on the UOP side, sort of flat for the year. Is that's a fair statement?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. That's right, because right now those jobs are not booked in the second half. We have visibility during the pipeline but until they book it's a little bit of an uncertainty. We expect them to, but could they get pushed out to '22, absolutely.

Q - John Inch {BIO 1793553 <GO>}

Got it. Thanks for the color. Appreciate it.

Operator

We will take our next question from Josh Pokrzywinski. Please go ahead.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Hi, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hi, Josh. Good morning.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Just looking at the broader Honeywell software offering, Connected and otherwise, I understand it probably varies by business, obviously, a lot of different end markets there, but can you talk a little bit about how adoption is fared in customer conversations are going? I would imagine with folks starting to pivot back to growth or investment as they expect COVID to get resolved that those should be accelerating but as you mentioned a few times Darius, there's awful lot of complexity and cases are actually worse. But how is that adoption going? And is that frontline moving higher as people are thinking about kind of post-COVID digital transformation?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I'll be honest. I wasn't -- I think, we actually had a very reasonable year in 2020, despite some of the challenged markets we're in, but just to give you a couple rough numbers. If you think about our overall software growth, it's mid single-digit even in 2020 environment. And then for recurring growth because frankly, we're sacrificing some top-line growth because we're really converting our entire Forge business, Forge software business is only sold as a SaaS offerings. That actually grew in the teens last year. So, that was a very good year and we actually -- we expect an acceleration on both of those figures for 2021.

But 2020 for me was a really good proof point that this business is acyclical. And as we continue particularly to build that recurring revenue base, which is growing more than 2x our served traditional software base, it's going to be a great tailwind for the future of Honeywell and the future of that software business. And with offerings like we just talked about in connected buildings and our cyber offerings, I'm quite confident that it's going to continue to grow at that kind of pace. So, the short story is we're seeing more traction and we have really more accounts.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Great, thanks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure.

Operator

We will take our next question from Julian Mitchell with Barclays. Please go ahead.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning. Maybe my question would be around the free cash flow outlook. So, the operating cash flow is guided to drop I think around $400 million at the midpoint, even though net earnings should be up probably high-single digits. So, just wanted to try and understand what's happening within that around sort of working capital. Is it the fact that you had that exceptional receivables tailwinds in '20 that has to reverse? Just trying to gauge how conservative or what assumptions you've got on that working cap side. Because I think that the CapEx is up, but only up maybe 10% or so.

A - Greg Lewis {BIO 20594853 <GO>}

Sure, sure. So, as we discuss the 51 to 55, just to ground out the numbers, that's 15% to 16% of sales. So, pretty similar to what we just did at 16%, is 95% to 98% conversion. So approaching 100%, it's 113% to 115% conversion extension. So, just keep in mind relative to the base metrics are pretty, pretty healthy numbers. As it relates to working cap and what's happening there. Yeah, I mean obviously, sales came down substantially this year and both with some transformation and effectiveness in our process as well as harvesting receivables. We had a very big -- we had a very big cash flow from AR this year. We started to see some of the inventory come down in 4Q, for the year, it was still a build.

And so when we think about next year, that's the area that I expect us to make more progress is on inventory and start seeing some inventory reductions, again even in the face of sales growth. And so I think you're going to see, we're world-class on payables, we'll continue to make some steady progress as we do each year. We'll make some progress on our programs around transforming on our credit collections aspects and so I would expect we'll make some more progress on past dues and DSO, but the big effort is really going to be focused around inventory in 2021.

A - Darius Adamczyk {BIO 18702500 <GO>}

And I would sort of, I think, I would classify our cash conversion in 2020 as exceptional. I mean, 105% conversion and 120% if you exclude something very positive, which is the fact that we're one of the few companies that have substantial pension income. So, we might be going from exceptional to very good. Frankly, the receivables performance was outstanding. We're not sure that can be replicated, we're certainly going to try. But we're going to focus on some other elements. And I will also say we've done a nice job on advances on build too in terms of 2020. So, I thought that this performance on cash was exceptional, and if you really take a look at, especially if you adjust for pension, or take a look at our cash generation as a percent of our revenue, you'll find that we're in the top quartile of performance, and that's certainly --.

A - Greg Lewis {BIO 20594853 <GO>}

Yes. We used to live down in 11% to 12% of sales. And now we've been posting 17%, 16% -- 16%, so. We feel pretty good about what we've done here.

A - Darius Adamczyk {BIO 18702500 <GO>}

And I hopefully, by now it's sort of clear that this is not luck and it's not a one-time phenomenon, that this is actually repeatable of that.

Q - Julian Mitchell {BIO 21229700 <GO>}

Great, thank you.

Operator

We will take our next question from Jeff Sprague with Vertical Research. Please go ahead.

Q - Jeff Sprague {BIO 1494958 <GO>}

Thank you. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Jeff.

Q - Jeff Sprague {BIO 1494958 <GO>}

Hey, good morning. Maybe a quick one on pension, agreed the conversion numbers look great, especially if you adjust for that, but the fact that you're now so over-funded, is there a way except through an insurance company or something that actually kind of extract monetary value from the pension or when you speak of it is kind of a value driver, Aare you really kind of talking about, A, it's great that it's over-funded? And B, you can use pension income to basically offset restructuring or other kind of cost related actions you might be taking?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I mean, I guess I would say a few things. I mean we're always looking at options around the future of the pension plan. So, that's something that we look at constantly. As far as value creation, I view it in two ways. Number one, it's a risk mitigating. I mean other companies are having to pile cash into their pension plan because they're unfunded, we don't. I can't remember the last time we put anything substantive into our pension fund, which obviously would take away from our ability to deploy capital into things that are going to drive growth.

So, that's when I say, it's a value driver, particularly vis-a-vis others. It's a huge value driver and that case in particular. So, that's -- and yes, it's a 113% funded. I feel great about where that is. Even if we were to have a bit of a market downdraft, we would still be very, very -- in very good position in terms of that funding levels. So to me, it's -- the team has done a terrific job of managing the pension and the annual returns around it for a very long time and it has absolutely been very good for us and for our balance sheet and our liquidity.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, and Jeff, maybe couple other things to it. There's really only two ways you can sort of monetize. The one way is obviously, if there is no more people in the pension plan anymore, which frankly it's a couple of years from now, that's -- the other way you could sell it to potentially insurance company, and so on. But there is a big premium on that, so financially that doesn't make a lot of sense to do that right now, but I think what our investors should really remember is that when they think about pension, particularly given the de-risking that we have and the amount of fixed instruments that we have, this should be completely worry free for them because even a huge adjustment in the stock market is not going put us in parallel. So, I just think that this is sort of a safe haven in terms of an area that frankly is a big question mark for a lot of companies out there. For us, it's a big positive and is going to stay that way for the foreseeable future.

Q - Jeff Sprague {BIO 1494958 <GO>}

Great. Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Steven, let's take one last question, please.

Operator

Yes, sir. We will take our final question from Joe Ritchie with Goldman Sachs. Please go ahead.

Q - Joe Ritchie {BIO 16351356 <GO>}

Thanks, good morning, everybody. Thanks for squeezing me in. So, I have a little bit of a longer-term question actually on the UOP business. How do you think about that business just in with the backdrop that you've got, EVs are obviously going to become a much bigger portion of the market going forward. There's going to be some biofuel conversion, so how are you thinking about that business kind of structurally more -- longer term?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, good question. Good morning. Two-fold, the first one is, the world, obviously, that the world of energy and how energy is generated is going to change over time. And the direction of that is clear. It's going to be renewables, energy is going to become much, much more prevalent part of the future. But it's also not going to be immediate. It's not going to happen in 2022 or '23 and it's going to be slow gradual progress. So, a lot of the things that UOP still does will become relevant, particularly a big part of that business being around gas, natural for us, which we know is the cleanest of the hydrocarbons. So, that's Phase 1. So, I think that we got to continue to serve our customer base. And frankly, many of whom will be transforming in terms of how they provide energy to the world.

The second part, as you know, we've launched a new business within UOP, Sustainability Technology Solutions business, which is going to become a bigger and bigger and bigger and bigger part of the UOP portfolio. And it really has three primary growth levers. One is energy storage, which is economically feasible and viable and we're building and deploying our first prototype of that this year. So, it's not a dream. Two is, 360 degree plastics recyclability, which also we're going to be deploying some technology this year. And then last one, where we really are the pioneers, which is Ecofining, which is going to become a bigger, bigger part of that refining footprint.

So, we've got three sort of, this is under one business umbrella and that's going to become our growth engine for the future. So, what I envision happening is potentially longer term, some of them were hydrocarbon-oriented offerings will slowly and I emphasize, very slowly decline, while our Sustainability Technology Solutions business will grow very, very quickly. That's -- that sort of how you see that business evolving. That's where we -- this is another place we're investing, put our dollars to work and we're excited about the future and the kind of solutions that we have. And as you know, we don't have better scientist anywhere in our company than in UOP when it comes to material science and I'm quite confident that some of these technology breakthroughs will work and will really enable a path to the future energy footprint of the world.

Q - Joe Ritchie {BIO 16351356 <GO>}

That's helpful. Thanks, Darius.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

This concludes today's question-and-answer session. At this time, I would like to turn the conference back to our speakers for any additional closing remarks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you. I want to thank our shareholders for their continued support of Honeywell throughout the macroeconomic challenges of 2020. I'm pleased with our execution throughout the year, proving that we can and will outperform in all economic conditions. We are well positioned for the recovery. I'm excited for the opportunities to come in 2021 and beyond. Thank you all for listening and please stay safe and healthy.

Operator

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