Q3 2017 Earnings Call

Company Participants

- Darius Adamczyk, President, Chief Executive Officer & Director
- Mark Macaluso, Vice President-Investor Relations
- Thomas A. Szlosek, Chief Financial Officer & Senior Vice President

Other Participants

- Andrew Burris Obin, Analyst
- Andrew Kaplowitz, Analyst
- Charles Stephen Tusa, Analyst
- Deane Dray, Analyst
- Gautam Khanna, Analyst
- Jeffrey Todd Sprague, Analyst
- John G. Inch, Analyst
- Nigel Coe, Analyst
- Steven Eric Winoker, Managing Director

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to Honeywell's Third Quarter Earnings Conference Call. At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mark Macaluso, Vice President of Investor Relations.

Mark Macaluso {BIO 19081474 <GO>}

Thank you, Christina. Good morning, and welcome to Honeywell's third quarter 2017 earnings conference call. With me here today are President and CEO, Darius Adamczyk; and Senior Vice President and Chief Financial Officer, Tom Szlosek. 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, and we ask that you interpret them in that light. We identify these principal risks and uncertainties that 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 third quarter, share guidance for the fourth quarter and full-year 2017. And as always, we'll leave ample time at the end for your questions.

So with that, I'll turn the call over to President and CEO, Darius Adamczyk.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Mark, and good morning, everyone. As we previewed last week, Honeywell delivered another terrific quarter with strong organic sales growth and margin expansion leading to high-quality earnings. Sales were up 5%, exceeding the high-end of the guidance we provided in July. Our Aerospace aftermarket business grew more than 7%. Our Intelligrated business, which develops solutions for the warehouse automation market, continued to grow at double-digit pace. And every business in Performance Materials and Technologies grew considerably, led by 25% organic sales growth in UOP.

In addition, we saw continued strength in high-growth regions. Organic sales growth in both China and India was up more than 30% year-over-year, driven by strong catalyst demand in UOP and continued growth from our differentiated offering within Home and Building Technologies and Safety and Productivity Solutions.

We expanded segment margins by 120 basis points this quarter, driven by strong operational performance in all businesses, leading to earnings per share that came in at the high-end of our guidance range at $1.75, up 16% on a basis consistent with our guidance. During the quarter, we also funded about $120 million of restructuring and other projects. We remain on track to achieving our full-year free cash flow guidance. Free cash flow for the quarter was $1.2 billion, representing about 90% conversion. I am encouraged by the progress we've made with regard to working capital, but there is much more we can do. And all of our businesses are focused on driving improvements to our cash cycle.

Overall, I'm pleased by our organic sales growth momentum and the operational improvement each of our businesses continue to achieve. As a result of our continued outperformance, last week we raised our full-year earnings per share guidance to $7.05 to $7.10, up 9% to 10%. As you will hear shortly, this morning we also raised our full-year sales guidance to reflect the stronger top line performance. Tom will walk you through those updates in a few minutes.

As most of you may recall, last week announced the spins of Homes and Transportation Systems. As independent companies, Homes and Transportation Systems will be better positioned to make tailored strategic and capital decisions that will enable long-term value creation. At the same time, these actions will make Honeywell a more focused, growth-oriented and synergistic company, putting us in a better position to continue to deliver the results you've come to expect from us.

I am pleased this quarter's results and looking forward to a strong finish to 2017. Let's turn to slide 3 to discuss some of the commercial progress our business has made in the third quarter.

In Aerospace, we launched the new unmanned aerial vehicle inspection service called Honeywell InView. The service will help customers in the utility, energy, infrastructure, and oil and gas industries improve critical structure inspections while eliminating safety hazards for employees. InView combines the proven performance of Intel's Falcon 8+ UAV System and Honeywell's varied and extensive experience across verticals with data-driven software that will help customers log, analyze and eventually predict or prevent outages and structural failures. We're excited about this unique combination of cutting-edge aeronautics with software and data.

In Home and Building Technologies, Kuala Lumpur International Airport, one of Asia's major aviation hubs, selected Honeywell Building Solutions to upgrade its airfield ground lighting control and monitoring system. The Honeywell system will enhance safety and efficiency while accommodating increasing aircraft traffic. Honeywell's technology will provide real-time location information on light failures to optimize response and repair, promoting enhanced operations and improved up-time.

Performance Materials and Technologies announced that Kuwait Paraxylene Production Company will use Honeywell Connected Plant services to improve performance at its CCR platforming and aromatics complex which produces a precursor to plastic fibers and films. KPPC will use Honeywell Connected Plant's Process Reliability Advisor for ongoing monitoring, early event detection, and mitigation of performance issues before they become costly. The company will also use Process Optimization Advisor, which continuously monitors streamlining plant data and applies Honeywell UOP process models to determine the most cost-effective method mode of operations. Both services use big data analytics and machine learning to improve plant operation.

We continue to deliver results for customers through our connected plant offerings and I'm pleased with the traction we've been gaining in this area.

In Safety and Productivity Solutions, you'll recall our efforts to develop mobile computing offerings for Google's Android operating system which is quickly becoming the standard for industrial handheld devices. I'm pleased to announce that earlier this week, we launched the Mobility Edge Platform. Mobility Edge allows users to easily upgrade to future Android versions more than any competitive offerings in the market, making it easier for customers to manage device refreshers and quickly deploy apps.

We've conducted comprehensive voice-of-the-customer research prior to the development of the Mobile (sic) [Mobility] (7:17) Edge Platform and rethought our approach to solving customer pain points that come up during our conversations. This results in a best-in-class scalable platform that makes deployments quick and easy for our customers. Clearly, there are a lot of exciting things happening across the portfolio as we head into 2018.

With that, I'd like to turn the call over to Tom to discuss our results.

Thomas A. Szlosek {BIO 6474485 <GO>}

Thanks, Darius. Good morning, I'm on slide 4. As Darius mentioned, we achieved 5% organic sales growth in the third quarter which exceeded our guidance of 2% to 4% growth. We've met or exceeded the high-end of our sales guidance in every quarter of 2017 and each of our businesses is contributing to the momentum. Segment profit was $1.9 billion, up 13% excluding the impact from our 2016 divestitures, and segment margin expanded 120 basis points from 2016, driven by our continued focus on effective selling and operational execution. We also had some favorability from lower OEM incentives in Aerospace which was contemplated in our guidance.

Earnings per share was $1.75, in line with our preview on October 10. Our third quarter tax rate came in at 23.4%, lower than originally anticipated which enabled additional restructuring projects beyond what we had planned. These projects will improve our cost structure, drive further productivity starting in the fourth quarter and begin to address the residual costs we expect as a result of the announced spins. Excluding $60 million of this additional restructuring and earnings from our 2016 divestitures and normalized for tax at 26% in both periods, earnings per share was up 16% year-over-year.

A number of people have asked about the impact from the extreme weather throughout the third quarter. The impact from all of the weather issues was approximately $0.02 of earnings, which we were able to overcome with advanced planning and other mitigation actions. Each of our businesses was impacted in some way. We had to temporarily close six Aerospace sites in the Gulf Coast and Puerto Rico. Several ADI branches were closed, leading to lost revenues for Home and Building Technologies.

In Process Solutions, several customers pushed third quarter projects into the fourth quarter and SPS experienced lower demand for safety equipment, especially gas-sensing products due to refinery maintenance pushouts. We're proud of how our employees and management team responded and delivered despite these challenges and are pleased that all of our employees made it through the events safely. We're in the process of assessing any ongoing impacts to our business.

Free cash flow continues to be strong, growing 18% year-to-date despite about $200 million more of timing related cash tax payments this quarter, and about $500 million more year-to-date. As Darius mentioned, our focus on improving working capital is beginning to deliver results, and we expect this to continue into 2018 and beyond. Free cash flow conversion in the third quarter was about 90%, as Darius mentioned. Overall, we delivered high quality results, driven by strong operational performance in our businesses.

Let's turn to slide 5 for our segment results. Starting with Aerospace, sales growth was 2 percentage points, above the high-end of our guidance. Strength in the Commercial Aftermarket continued this quarter with strong air transport and regional spares and continued demand for retrofits, modifications, and upgrades. The business in General

Aviation Aftermarket was also up, primarily driven by the timing of customer demand. Overall, aftermarket sales grew 7%.

OE sales for the quarter were up 10%, driven by the impact of lower year-over-year customer incentives, as expected. On the air transport side, we saw higher demand on key platforms including the A318, A320 and 737, strong growth with certain regional OEMs as well. Sales and business in General Aviation were better than anticipated, primarily due to the timing of engines and avionics shipments and accelerated new platform demand. While we are encouraged by the strong quarter in BGA, the market is not expected to fully recover until late next year or early in 2019.

Defense & Space sales were down 2% organic with strong U.S. core defense sales more than offset by storm-related impacts, supply base execution and the anticipated continued weakness in the space and commercial helicopter markets. In Transportation Systems, we saw continued growth in commercial vehicles, particularly for on-highway turbos, driven by increased vehicle sales in the U.S., new launches in Europe and continued enforcement of vehicle weight regulations in China. Growth in light vehicle gas turbos in China was again strong.

Aerospace segment margin expansion of 290 basis points for the quarter was driven by lower year-over-year customer incentives as we signaled; Commercial Excellence including the impact of our investments in the sales force; the benefit from ongoing productivity initiatives; and the favorable impact of the 2016 divestiture of the government services business.

Home and Building Technologies grew 2%, driven by distribution and the Smart Energy business within Products. The distribution side of the business was up 2%, primarily on the strength in our ADI business. Backlog in the Honeywell Building Solutions business was up over 20% in the quarter with every region reporting double-digit increases and every line of business up year-over-year. Within the Products businesses, we continue to execute several large smart meter program rollouts and saw continued strong demand for clean-air and water products in China.

Segment margin for HBT expanded 10 basis points, driven by benefits from Commercial Excellence in our ongoing productivity initiatives, partially offset by continued unfavorable mix, both within the Products businesses and between products and distribution.

Performance Materials and Technologies had another outstanding quarter with organic sales up 10% and 170 basis points of margin expansion. There is broad strength across the PMT businesses. UOP sales were up 25% with every line of business achieving double-digit year-over-year increases, including strong licensing, equipment, catalyst and gas processing volumes.

There was good growth in mega projects in China, strong catalyst reload volumes in India and Asia Pac and new unit growth in the Middle East. In HPS, sales were up 5% with significant growth in the short cycle software and services businesses as well as in Thermal Solutions. Advanced Materials had another quarter of strong growth driven by continued demand for Solstice, low-global-warming products. Orders and backlog were up high single-digits across the entire PMT portfolio.

Margin expansion in PMT came in at the high-end of our guidance range, driven by the volume leverage from PMT's exceptional sales growth, results from our Commercial Excellence efforts, and the divestiture of the former Resins and Chemicals business last year.

In Safety and Productivity Solutions, organic sales were up 3%. Intelligrated booked a record amount of orders in the third quarter and had another quarter of 20% sales growth, driven by strong demand from large customers. Workflow solutions recorded double-digit growth this quarter with significant demand coming from existing customers of our Vocollect voice-enabled solutions, as well as large project rollout for a key European customer within our Movilizer software business.

In Sensing and IOT, demand for our sensing controls and new sensor products remains strong with growth in all regions, particularly in high-growth regions like China. In Productivity Products, we saw double-digit growth within our scanning business, as well as robust demand for printers. And as Darius mentioned, we're working to address the Android-based gaps in our mobility product line. We anticipate that we'll see the impact of our new Android launches next year.

Finally, Safety grew 1% on an organic basis, driven by demand for our high risk and general safety personal protective equipment offerings. Again, we were modestly impacted in Safety by the hurricanes in the quarter, mostly in the gas sensing line and fully expect a recovery in the fourth quarter.

SPS segment margins expanded 190 basis points excluding the first-year dilutive impacts from M&A, primarily driven by higher volume, continued productivity, and restructuring benefits and partially offset by investments in Commercial Excellence, a great third quarter performance across all the businesses, as Darius mentioned, while overcoming unanticipated impacts from the weather-related disruptions.

Slide 6 walks our earnings per share from the third quarter of 2016 to the third quarter of 2017. Earnings from our divestitures in the third quarter were approximately $0.04 per share in 2016. We exclude those amounts from the 2016 baseline, consistent with our guidance framework. For comparison purposes, we've also normalized the tax rate for the third quarter of 2016 to the 26% effective tax rate we assumed in our third quarter guidance, the impact of which was $0.05 per share.

As you can see, the overwhelming majority of our earnings growth is coming from segment profit improvement in the business, with all four segments contributing to the growth, led by Aerospace. This reflects the impacts from the strong top line in the quarter, as well as our Commercial Excellence efforts and HOS Gold deployment and savings from previously-executed restructuring projects. Below the line items were a $0.02 headwind this quarter, primarily due to the absence of the third quarter 2016 gain from the sale of our former Aerospace government services business, partially offset by slightly lower restructuring expense year-over-year.

In the third quarter, we funded nearly $120 million of restructuring, which was partially enabled by a lower than planned tax rate at approximately 23%. Other items, including noncontrolling interest, share count, and tax were roughly flat year-over-year.

Let's turn to slide 7 for our expectations on the fourth quarter. In Aerospace, organic sales are expected to be up 1% to 3%. In Commercial OE, we expect roughly flat sales growth in total, driven by strong air transport deliveries, partially offset by the impact of declining shipments on legacy air transport platforms and slight declines in bizjet OE. We anticipate modest growth in the business aviation aftermarket on the timing of customer demand for spares and expect the air transport aftermarket to be roughly flat, driven by increased repair and overhaul activities, offset by the timing of spares demand.

In Defense, we have a healthy backlog and expect continued strength in U.S. core defense, partially offset by ongoing space weakness. Demand for gas turbos in Europe is expected to drive low to mid single-digit growth in Transportation Systems. Aerospace margin should expand by 70 to 90 basis points this quarter, driven by volume leverage, Commercial Excellence, restructuring benefits and productivity net of inflation.

In HBT, we anticipate organic sales growth of 2% to 3%. Within the Products businesses, growth in Smart Energy will continue, albeit at a slower pace as we move past the large smart meter rollouts we executed in the second and third quarters.

We also anticipate improvement within Security and Fire. Security was improved each quarter in 2017, and we expect that to continue as a result of new product introductions and Commercial Excellence. In Distribution, the strong Building Solutions backlog I mentioned earlier, combined with the continued strength in the Global Distribution business, will drive low single-digit growth in the fourth quarter. HBT segment margins are expected to contract 10 basis points to 30 basis points, driven by continued headwinds from product mix, partially offset by savings from prior restructuring actions and ongoing Commercial Excellence and productivity initiatives.

As a reminder, Smart Energy was recently moved from HBT to Performance Materials and Technologies, and their results will be included in PMT's results beginning with the fourth quarter earnings. Before our December outlook call, we expect to file a Form 8-K with the SEC to restate the 2016 and 2017 quarterly segment results to reflect this movement of the Smart Energy business.

In Performance Materials and Technologies, sales are expected to be up 10% to 12% on an organic basis, driven by continued conversion to sales of our strong backlog. UOP is expected to deliver another quarter of strong growth, driven by natural gas recovery projects in the UOP Russell business in Russia and North America, as well strong initial catalyst load in the Middle East.

We expect mid single-digit growth in HPS with significant demand for our Thermal Solutions and Field Instruments. In Advanced Materials, we expect double-digit growth fueled primarily by our Solstice refrigerants for mobile air conditioning. PMT segment margins are expected to contract 110 basis points to 120 basis points, driven by an unfavorable mix of equipment versus catalyst sales in UOP year-over-year.

In the fourth quarter of 2016, PMT had catalyst growth of 17%, which fueled expansion of more than 500 basis points of margin. Even so for the full year, we expect PMT will still generate 140 basis points of margin expansion – truly, an outstanding year.

In Safety and Productivity Solutions, sales are expected to be up 5% to 7% on an organic basis. In the Safety business, we expect robust growth as refinery maintenance resumes following the hurricane-related impacts in the third quarter which will drive demand for our entire range of safety products.

We expect that the retail business will return to growth this quarter as we execute the new direct selling strategy in that business, and expect we'll see normal elevated seasonal demand. Growth in Productivity Products will be driven by another strong quarter at Intelligrated, building on the robust orders and backlog growth throughout 2017 as well as continued strong demand for the Sensing and Control's business and workflow solutions, including Vocollect and Movilizer.

SPS margins are expected to expand by 110 basis points to 130 basis points, driven primarily by higher volumes and the results from our ongoing productivity and repositioning efforts.

For Honeywell in total, we expect another strong quarter of organic sales growth and 30 basis points to 50 basis points of margin expansion leading to earnings per share of $1.79 to $1.84. We expect that our fourth quarter effective tax rate will be about 21% with the full year closer to 22%. We intend to undertake additional restructuring projects as we have the past two quarters, enabled by this expected lower fourth quarter effective tax rate. The difference between the organic and sales projections you see on this page is primarily due to the stronger U.S. dollar.

On M&A, we've lapped the impacts of our two big divestitures, the Aerospace government service business and the Resins and Chemicals business as well as the impact of the Intelligrated acquisition. Our fourth quarter and full year guidance does not contemplate significant cost to prepare our Home and Transportation Systems businesses for the spins we announced last week. We're working to define those costs and workstreams and we'll provide more details as we progress.

Let's move to slide 8. Last week, we raised the low end of our full year EPS guidance by $0.05 – $7.05 to $7.10 per share, up 9% to 10%. This growth excludes the impact of 2016 divestitures, fourth quarter 2016 debt refinancing charges, and the pension mark-to-mark adjustments. Based on current discount rates and asset return assumptions as of September 30, we do not expect the 2017 pension mark-to-mark adjustment to be significant. We're raising our full year sales guidance to a new range of $40.2 billion to

$40.4 billion, up 3% to 4% organic and up 2% to 3% reported. This new range reflects stronger sales performance and outlooks in Aerospace and Performance Materials and Technologies. You can see the revised sales guidance on the right side of the page.

We remain within the initial guidance for the segment margin and have narrowed our estimate to about 19%, which is up 70 basis points year-over-year. There's no change to our full-year free cash flow guidance. The year-to-date free cash flow performance has been good and each of our businesses continues to remain focused on improving our working capital execution.

Let me turn to slide 10 for a quick wrap-up. The third quarter marked another strong performance for Honeywell with each of our segments meeting or beating their commitments. We had outstanding sales performance and robust orders and backlog growth across the businesses that will help fuel continued growth. We expect to finish the year strong with fourth quarter organic sales growth between 4% and 6% and earnings per share of $1.79 to $1.84. For the year, we raised our sales guidance to a new range of $40.2 billion to $40.4 billion and reaffirmed the new earnings per share guidance range we provided last week, $7.05 to $7.10 per share.

We continue to make investments to drive future profitable growth as well as to begin to eliminate the residual costs we expect as a result of the announced spins of the Homes and Transportation Systems businesses. At Honeywell, we're committed to driving shareholder value. That means optimizing our portfolio, as we announced last week, but that also means remaining focused on delivering outstanding results on growth, productivity, and cash flow every quarter of every year.

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

Mark Macaluso {BIO 19081474 <GO>}

Thanks, Tom. Darius and Tom are now available to answer your questions. So, Christina, if you could, please open line for Q&A.

Q&A

Operator

The floor is now open for questions. Thank you. Our first question is coming from Deane Dray with RBC Capital Markets.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone. I'm sorry, I signed on late so you may have covered some of this before. One of the follow-up points I had on the spin announcements, divestiture announcements earlier, was the potential for and the use of the Honeywell brand for the divested businesses. Just it's kind of a cleanup question on that announcement, and I'd start there, please.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. Yes. I think as it relates to the Honeywell brand, some of those decisions have not been made in terms of how we're going to – or what we're going to do with the brand for either the Homes or the Transportation Systems business. So, I think that we'll provide more clarity on that as we move forward, but there are a lot of different options that we have and it's going to be part of our work product moving forward and we'll be communicating that as that becomes clearer in Q1 and Q2 of next year.

Q - Deane Dray {BIO 1722688 <GO>}

And how about just a broader question on progress report and goals for the transformation of Honeywell to the software industrial, Darius, that you envision, just in terms of portfolio shaping, the way you're looking at M&A, emphasizing perhaps some software-as-a-service opportunities within the portfolio.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. No. Overall, I'm very pleased in terms of how our Connected Enterprises is progressing this year. It's up double-digit which is very much in line with expectations. Margins are up even higher than that. And in terms of acquisitions and landscape there, we continue to look at all segments of the business, including our software plays. We've made one acquisition, actually, in the software area in Q3, which is a pretty exciting cyber technology that – although the business itself is relatively small, we have very, very big growth opportunities for it and it's actually exceeding our expectations.

So, the software acquisitions in general would be more of the bolt-on variety. Those are the kind that we're looking at. But overall, we continue to make progress both on the P&L on Connected Enterprise, continue to make progress on the buildout of our Sentience platform and signing up more partners as we go. So, we continue to be very excited about what we're doing. And the most important part of that is generating the right kind of results.

Q - Deane Dray {BIO 1722688 <GO>}

Got it. And just last question. I know we're going to hear more of this on your outlook call. But broad strokes, the outlook on 2018 in terms of the macro environment, where do you think you're particularly well-positioned, both U.S., outside the U.S.?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes, Deane. This is Tom. Yes, we're in the throes of our planning right now. We'll go through the details as we get into November, December. We're looking at trends continuing in most of our businesses. I mean, you see the strength in Aerospace, a lot of good flight hour activity, the Defense is looking up. And with any luck at some point in the tail end of 2018, we'll get some help from the business jet side, although business jet usage remains strong. So, we expect those trends to continue.

PMT, we really are encouraged, not only by their performance, but by the strength of the orders and backlog and it's been in all lines of business. I mean, not to denigrate last year, but we had great orders last year in the after-market side. We're seeing a lot of front-end orders type business in PMT, particularly in UOP and HPS, which bodes well for building installed base and building that service business. So, really strong trends there.

In SPS, Intelligrated continues to perform very well. We expect that backlog, which is well over 20%, to fuel excellent growth. And we expect the trends in that vertical to continue with e-commerce. And the Safety business continues to do well. We've got the Android products on Productivity and the software businesses in SPS.

So, good trends. You saw our fourth quarter expected growth, and I think we'll see that continue into next year. So, overall, I see some trends, some growth trends continuing.

Deane, as you saw, every quarter of this year, the organic growth rate has improved. And if our guidance holds up into the fourth quarter, that should at least be equal to third quarter and hopefully, that continues into next year. So, overall, pretty strong conditions as we had. We're encouraged.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you.

Operator

We'll take our next question from Steven Winoker with UBS.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Thanks, and good morning, all.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Good morning.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Darius, could you maybe expand a little bit on your thoughts around PMT and UOP in terms of that refining cycle? It's giving you a lot of – I mean, overall, the tailwinds, top line. I know you've got equipment challenges. But the cyclical versus structural side of this, what are you kind of expecting given Tom's comment for the length of tailwind in that very important segment?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, Steve, as Tom pointed out, one of the most important things for that business we always watch is the bookings. It is very much a long cycle. Bookings are – backlog's up.

We know for a fact that it's going to be up probably double-digit by the end of this year versus the end of last year. We continue to be bullish. We're winning a lot of work. We're particularly winning a lot of work in our high-growth regions, which I find to be really important. Because as you think about where PMT needs to be strong and has to be strong is in the development and progress of a lot of the developing regions. And that's exactly where it's winning. So, it's win rate in China, India. Markets such as this give me a great deal of comfort is that it's going to continue to perform. Our backlog position is strong, and we expect another strong quarters of booking in Q4 and go into 2018 with a strong position.

And the good news is we're kind of seeing it across all the segments, whether it's our gas processing business, whether it's the catalyst business, all of those have been particularly strong. And by the way, enjoyed the biggest order ever in Q3 in terms of our catalyst orders. So, overall, things are very much moving in the right direction for all of PMT, but especially UOP.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Thanks. That's helpful. On SPS, I think you had about – you had a month of Intelligrated in that 3% organic. Let me know if that's about right.

A - Darius Adamczyk {BIO 18702500 <GO>}

That's right, that's correct.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

So, ex-Intelligrated, which you said was up more than 20%, the rest of that business must have been down, I don't know, say low to mid single-digits or something. Maybe give a little color on that. And maybe it is all in the mobility productivity side, but maybe just a better understanding of the organic performance ex-Intelligrated there.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, it's actually good. And you'll see there's growth in every business. The only business where we didn't see growth was Productivity Products and that's due to some of the challenges we previously communicated around the mobility platform because if we look at the scanning side of the business, it was actually up close to 20%. So, we have one small area which is challenged and the Productivity Products business is challenged. But as we just announced, we've had an exciting new product launch this week. We have more coming in the middle of November and another set of new product launches in the mobility segment coming in the middle of February.

So, we're not where we want to be on mobility and Productivity Products, but I'm very confident that business, as we head into 2018 and Q1 and Q2, is going to start turning that performance around as it launches these new offerings.

But overall, a very strong performance across the board by SPS other than the one issue we knew about and we weren't particularly surprised about the outcome.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Yeah, it's actually one...

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes, not to mention overcoming the storms and hurricanes in the Safety business in particular. As you know, the oil and gas vertical is a big sector and there was a lot of push-outs of projects and activity that affected particularly the gas monitoring business in Safety. But overall, the trends there are really strong, as Darius said.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. And just to...

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Yes, actually, the numbers are – it's up 1%, though, right? Ex-Intelligrated, Tom? So, it was positive still?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Absolutely, yes.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

Yes. Okay.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

No, no. Steve, I'm not saying that the numbers ex-Intelligrated were up 1%. I mean, as Darius said, every one of the business was strong. It wasn't just Intelligrated that was contributing more than 2% or 3%.

Q - Steven Eric Winoker {BIO 15988218 <GO>}

All right. Great. Thank you.

Operator

We'll take your next question from Steve Tusa with JPMorgan.

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Hey, guys. Thanks for having me on the call this morning. It's nice to be able to get on calls and ask questions. Just first question, you guys, you recently raised your dividend by how much?

A - Darius Adamczyk {BIO 18702500 <GO>}

12%.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

12%, Steve.

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

And the commitment is to continue to do that and drive that faster than earnings going forward for the next few years?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Well, I think that the...

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, the – go ahead, Tom.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes, the commitment that we've made that Darius talked about at his Investor Day, at our Investor Day, was continuing for the five-year plan with the idea of raising a dividend faster than the earnings growth. And we're coming up to the end of that. As we look forward, we'll watch that. But at minimum, we're committing to keep the dividend growth in line with earnings growth. It'll track earnings per share.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, and then...

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Yes, and then...

A - Darius Adamczyk {BIO 18702500 <GO>}

Steve, just to answer that...

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Sorry, go ahead.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. So, as we said – as Dave (39:06) committed for the five-year period which ends in 2018, we're going to grow dividends on a pace that's faster than earnings. We're committed to that. It's consistent with what we said five years ago. So, period after that, what I would say it's going to be equal to or greater than earnings. We're going to provide greater clarity on that in our February Investor Day. But I would expect to be equal to or greater than.

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Right, and you guys have free cash flow so we can talk about that. Seasonally, it kind of suggest that your cash should be kind of towards the higher end of the range. Just remind us what the target is for 100%. Is that for 2018 or 2019?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes, Steve. The way I talked about that at the Investor Day and largely sticking to it is that by – at a run rate, 2018, but really in 2019 we expect to be at that 100%.

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Okay. And then one last question. Math is clearly not a strong suit or prerequisite for being on the sell side. But the math around Safety and Productivity Solutions, I was getting to something a little different like maybe 1%, 1.5% growth in the core business. And with your new android product that's coming in, would you expect that kind of core growth? I mean, not that it really matters because Intelligrated is an organic grower that has tremendous orders so I'm not sure why we're picking that apart in the first place. But would you expect that to get better next year and some of these new products come into the fray in Safety and Productivity?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, absolutely. I mean, we expect much improved growth rate in Productivity Products next year as these new products launch and gain traction. I'd probably expect it to accelerate a bit through the quarters because the bulk of our launches are coming in Q4 and Q1. So, obviously, it takes time to generate the orders, but short answer is yes.

And I think we continue to talk about Productivity Products. It's one segment of one business where we had a little bit of a struggle, but across all the other businesses, it's been a really nice story of both topline growth and margin expansion.

Q - Charles Stephen Tusa {BIO 17373535 <GO>}

Yes. I guess people just can't live without adjusting numbers everywhere, so I can understand why we would do that for a segment like that. Congrats on the top tier organic growth and keeping your eye on the ball.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Steve.

Operator

We'll take your next question from Gautam Khanna with Cowen & Co.

Q - Gautam Khanna {BIO 7312818 <GO>}

Yes. Thank you, guys.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Good morning.

Q - Gautam Khanna {BIO 7312818 <GO>}

I was wondering if you could provide your early perspectives on any competitive implications of UTX, Collins. And have you given any more thought to the whole Boeing avionics initiative and their stated goal of kind of moving into the aftermarket on the Aerospace side? Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. Yes. So, I mean, I think starting with Collins and UTX, obviously, is something that we've analyzed. But the way we look at this is the capability that we currently have both in mechanical systems as well as avionics are on par greater than anything that UTX or Collins would have in creating that merger.

I am particularly excited as it relates to our vision of Connected Aircraft because having both front end and electronics as well as the mechanical systems, really gives you the strength and capability to implement and deliver that vision of a Connected Aircraft. And it's not theoretical for us. It's something that we already have and are delivering and it's growing double-digit, and we're marching through the aircraft to get all of our systems connected. We already have APUs launched to wheels and brakes this quarter and we're going to be marching through. So, I'm not sure that that merger puts us at any kind of a disadvantage vis-à-vis UTX or Collins.

And maybe most importantly, I never viewed the Aerospace segment as one where scale matters. What matters for us is technology differentiation and that's going to be our basis for competition.

In terms of the Boeing avionics and services announcement, clearly we respect what they're doing. There is not a lot of clarity yet in terms of exactly what that means and what they'll be doing. Obviously, Boeing is a highly valued and important customer for us which we're going to continue to work with and support. But we also have our own relationship with the end-users, the airlines and we have a strong vision for growing our services in RMUs and Connected Aircraft as well. So, we're going to be as supportive as we can to Boeing and stay in sync with them and create a win-win for both companies.

Q - Gautam Khanna {BIO 7312818 <GO>}

Thanks. And Darius, maybe just a follow-up on M&A. When you look at the pipeline and some of the portfolio actions you've announced, are there any larger properties that are attractive to you? Or should we expect more on the kind of couple billion or Elster size bites going forward or are there some big swings in this (44:37)?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. There is always things that are attractive, but I would expect more of the bolt-on variety, that's really our sweet spot, and that's where we're looking. And I would say our pipeline is filled more with bolt-on variety type of acquisitions.

But you never know, anything could happen. But I would say I would be more expectant of bolt-ons.

Q - Gautam Khanna {BIO 7312818 <GO>}

Thanks a lot, guys. Good luck.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. Thank you.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Thank you.

Operator

And we'll take our next question from John Inch with Deutsche Bank.

Q - John G. Inch {BIO 1793553 <GO>}

Thank you. Good morning, everyone. And I'd also like to echo Steve Tusa's commentary. It's nice when companies allow questions. So, I want to start. Was the...

A - Darius Adamczyk {BIO 18702500 <GO>}

We aim to please, John.

Q - John G. Inch {BIO 1793553 <GO>}

Yes. You roll with the punches. I appreciate it. So, what about pricing? Was there any discernible trend on pricing? There's a little bit of still this debate around raw impacts, various companies are calling out. And just curious, I realize you guys have – you're not a huge raws spreads company. But there is a little bit of impact. Are spreads improving? Or how should we think about that?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. No. I mean, obviously we're in a bit of an inflationary environment for some the commodities. But one thing I'm very proud of all of our teams and all our businesses, they really stayed on their toes and made the adjustments, understand what the impacts are, and really are capturing the value that our services and products provide for our customers.

So, I think overall, we've probably been more challenged on the cost side this year than we've seen in a while, but I also think we've reacted quickly, made the right adjustments. We have a very active value engineering program as well that produces substantial productivity. And we also understand the value that we bring to our customers and make adjustments as required. So, all in all, we've done a nice job here.

Q - John G. Inch {BIO 1793553 <GO>}

Were spreads a drag in the quarter?

A - Mark Macaluso {BIO 19081474 <GO>}

Say that again, John?

Q - John G. Inch {BIO 1793553 <GO>}

Yes. I just said – sorry. Were spreads a drag in the quarter this year versus last year? If there's a way to kind of capture that?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

No. I think we're – when you look at the actual pricing, it's what we talked about last quarter. It's holding in there quite nicely, 50 basis points to 100 basis points depending upon the business and largely recovering to the types of inflation Darius talked about. Like you said, the businesses are laser focused on this, particularly on the material inflation side.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. And John, I'd just point to the fact that every one of our businesses expanded margins in Q3 – every single one. And we're on that trend for the whole year as well.

Q - John G. Inch {BIO 1793553 <GO>}

Yes. So, that kind of almost leads to the question of cash, and given all the investments you guys have been putting in, the products and so forth, and the growth that you anticipate, it's clearly, growth is picking up in PMT and Aerospace.

I forget, Darius, if you had mentioned this in kind of the portfolio review call, but what's your sort of line of sight to Honeywell getting to 100% free cash conversion if not higher than that? And where does that kind of rank in your strategic priority list of things you're trying to accomplish?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. It's important, and that's exactly what we're aiming is 100%. It's consistent with the message we've been giving. We're marching towards that goal. We did roughly 90% this year. We expect to see improvement next year and then further improvement 2019, and it's a very conscious goal. And I can tell you that we've never had more focus on working capital than we do today. We're seeing some progress being made there, and there's more to go. But it's a very important goal, a goal that both Tom and myself and the rest of the business leaders take very seriously and we're committed to.

Q - John G. Inch {BIO 1793553 <GO>}

Just lastly, the question to capital allocation, you basically said, look, let's think about near term, we'll think about foreseeable future bolt-ons. A lot of the stuff out there is pretty pricing given what's happened in the public markets plus, Darius, I think a lot of the things that you want to aspire toward improving or realizing in your mix, software, industrial, et cetera – and that stuff's got to be pretty pricy, too.

Is the playbook kind of in the intermediate term just we're not going to do a lot of M&A? How do you judge that balance or gauge that balance? Because you don't want to overpay, but you don't want to sit and sort of do nothing if the prices are the prices, right?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. No. I think that's fair, and we've been very cautious. We've been very active, by the way, in the M&A area. But the one thing we're known for during Dave's era and it's going to be the same during this one, is we're going to stay disciplined in terms of M&A.

But if you're selective and you're active, which we're going to be both of these things, sometimes you can find the gems at the right price. So we're going to continue trying. We have a robust pipeline, and we're not marching off the field because things look expensive. They do, but we believe that there are opportunities out there where we can participate at an appealing valuation.

Now, having said that, if there's nothing that happens, well obviously, we're going to also be looking at buybacks as another way to distribute cash back to our shareholders. So, it's always a balance. We'd like to have some – have ability to stay balanced. Our preference is for bolt-on M&A, but it's got to be smart and we've got pay the right price. And if we can't get that done then we're, obviously, going to be leaning a little bit heavier on buybacks.

Q - John G. Inch {BIO 1793553 <GO>}

Thank you. And by the way, you guys better hold on to Mark. Good Investor Relations are hard to find.

A - Mark Macaluso {BIO 19081474 <GO>}

I owe you one, John.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I think the check's in the mail, John.

Q - John G. Inch {BIO 1793553 <GO>}

Any check would be welcome, trust me. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

It just feels like there's a lot of passive aggressiveness on the call today.

Q - John G. Inch {BIO 1793553 <GO>}

I can't imagine -

Operator

And we'll take your next question from Nigel Coe with Morgan Stanley.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. I'll keep this one simple, I think. Good morning, guys. So, SPS...

A - Mark Macaluso {BIO 19081474 <GO>}

Good morning, Nigel.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Good morning.

Q - Nigel Coe {BIO 3818998 <GO>}

Yes. So, no passive aggressiveness. Maybe some aggression but nothing passive. The 5% to 7% SPS organic growth, obviously, in 4Q, we've kind of been chatterboxing around this as well. So, math is not my strong point, but Intelligrated would be what, 2 points, 2.5 points of tailwind for that number. So, we're looking at maybe a core of 4% to 5% ex-Intelligrated?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes, I think, I'd have to do the math, but each of the businesses at least low to mid single-digits, I mean, putting Productivity Products aside.

Q - Nigel Coe {BIO 3818998 <GO>}

Yes.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

So, for example, the Safety business, Nigel, I mean, where it was low single-digits in the third quarter, that's going to be good mid single-digits in the fourth. Industrial Safety will be well into the mid to higher single-digits. High-risk business is doing well.

We also will have really strong results expected on the retail business. As you know, we've changed the business model. That's going to be well into the double digits. Productivity, even with the Productivity Products, overall, we'll be high single-digits in Productivity. As Darius said, the scanning business is doing fantastic, workflow is going to be north of 20%, our software and sensing business will be mid to high single-digits.

Intelligrated will be up like we said it would be. But it's everywhere and globally as well. I mean, it's in the U.S., it's Europe, China. So, it's not just a pull from Intelligrated that's doing this nor is it the Productivity Products pulling us down. These are all really good growers to give us that organic growth range we talked about.

Q - Nigel Coe {BIO 3818998 <GO>}

No. That's sounds pretty broad. One of your competitors, Dematic, dropped a surprise warning in their warehouse business, I think it was yesterday or the day before. It seems to imply they're losing some share. I mean, maybe could just touch on how you're seeing maybe the front log in the warehouse business as you go into 2018?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, we continue to be very bullish and we had a very strong orders quarter in Q3. We anticipate another one for Q4. And as I said, that business is really well-positioned because it's – what's really growing the fastest is the e-commerce high-throughput type of warehouses and that's exactly the sweet spot of that business. And customers are seeing the value and we're generating the orders. And as you can imagine, it's a very quickly growing playing field in warehouse automation given the expansion in warehouse and distribution and we don't see that pausing. We're bullish on our Q4 and we're bullish on 2018.

Q - Nigel Coe {BIO 3818998 <GO>}

Great. And then just a quick one, sorry.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

No, I was just going to say we did take note of the competitor announcement you talked about. But as Darius said, our third quarter was just fantastic in terms of orders growth in Intelligrated. I mean, strong, strong double-digits. And as we said, we expect that to continue. Backlog is really good, I mean, compared to last year and it's all organic growth. I mean, well over 50% backlog growth. So, it's positioned very well.

Q - Nigel Coe {BIO 3818998 <GO>}

And then just a quick one, Tom, on the 350 bps (55:13) of margin expansion in 4Q. Obviously, the FX hedge we got in place for this year is margin dilutive given the dynamics of stronger revenues from weaker dollar, but no impact to EBIT. So, I'm just wondering would that be about 20 bps or so? That's what my math tells me.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

You mean for Q4?

Q - Nigel Coe {BIO 3818998 <GO>}

For Q4, yes.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes. I mean, the translation – that will be about flat for us, I mean, year-over-year. I don't think that's going to be a big impact overall, FX for the fourth quarter.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. Got it.

A - Thomas A. Szlosek {BIO 6474485 <GO>}

When you consider the hedges, the movement in the rates and everything, it's basically flat.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. Got it. Thanks a lot, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks.

A - Mark Macaluso {BIO 19081474 <GO>}

Thanks, Nigel.

Operator

We'll take our next question from Jeff Sprague with Vertical Research.

Q - Jeffrey Todd Sprague {BIO 1494958 <GO>}

Thank you. Good morning, guys. Just a quick one for me. You guys covered a lot of ground. I just wanted to get a – hone in a little bit further on this free cash flow question looking forward. And I'm just wondering, perhaps it's for Tom, but Darius is certainly welcome to chime in. Just what are the big bridge items next year when we think about free cash flow? I'm assuming CapEx might be down a little bit. I don't know if you expect help on working capital. You've got growth that will mitigate against it, right? So, maybe your turns improve but maybe absolute working capital doesn't, pension, et cetera. Just what are really the big items next year that kind of puts you on the path to the 100% in 2019?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

I mean, when you look at 2017, Jeff, we're looking at about $1 billion of CapEx, although that could be a little heavy. When you look at that as a reinvestment ratio, expect that to come down in 2020. There will be at least $150 million, $200 million less of CapEx which is a big driver for us. We do have incremental cash tax spending this year that's mostly timing related. We'll have probably by the end of the year incremental $500 million year-over-year. I don't expect that to repeat next year, so that should give us some tailwind.

And then most importantly, operationally, as Darius talked about, is working capital. We're kind of improving our trends, which means kind of treading water this year, not necessarily adding huge amounts to working capital. The turns kind of staying flat. But as you said, a lot of business focus on driving that going forward. We're going to need $200 million, $300 million out of working capital next year to drive towards that 100%. Those are the, I'd say those are the big three things that we're looking at.

Q - Jeffrey Todd Sprague {BIO 1494958 <GO>}

Great. I'll leave it there. Thanks, guys.

A - Mark Macaluso {BIO 19081474 <GO>}

Thanks, Jeff.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Jeff.

Operator

We'll take our next question from Andrew Obin with Bank of America.

Q - Andrew Burris Obin {BIO 6337802 <GO>}

Yes, good morning, guys.

A - Mark Macaluso {BIO 19081474 <GO>}

Good morning, Andrew.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Andrew Burris Obin {BIO 6337802 <GO>}

Just a couple of questions. On Aerospace, as we think about the Defense portfolio of programs, as Defense budgets improve, how should we think about your portfolio of programs relative to budget, i.e., do you think you can keep up with the budget? Meaning is there something, is there a big outline in terms of your programs that Honeywell is going to be very different?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I think it's going to be aligned. I mean, we're seeing really good growth, particularly in U.S. Defense budgets where we – I think we have obviously greater clarity and a much greater density, and that segment of the business is doing well. We anticipate to continue to do well and it will be aligned or higher than the growth.

When it comes to international, it's a little bit more hazy, because obviously, we're talking a lot of different countries, a lot of different programs, and we have some programs that are ending, some that are continuing. But overall, it's kind of an up arrow given what we're seeing in geopolitical arena, anticipate slightly greater spending by NATO as a whole. So, in some recovery in helo (59:58) markets in the future which is, as you know, is in that segment. So, overall, constructive when it comes to Defense.

Q - Andrew Burris Obin {BIO 6337802 <GO>}

Right. So, that should be a nice tailwind to Aerospace. Another question, just talking about China and emerging markets visibility, A, what are you guys seeing on the ground with this party (1:00:20) Congress? Is everything on track? And the second, how should we think about your China exposure going forward given the portfolio changes that you guys have made now that your China business is really driven by Aero and UOP? Do you sort of disconnect from the underlying China macro to a certain degree going forward? Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

No, I mean, China and India as we pointed out this quarter have been up 30%, and that success is not isolated to PMT or Aero. That's for every one of our business segments. And as you can imagine, as COMAC gets going even further, Aero actually – that revenue potential is still way ahead of us, not behind us.

Secondly, UOP, HPS are continuing to win across the board in China and India. Tremendous successes there this year. Buildings and Home, we approach those markets a little bit differently than we do in some of the developed markets. But again, double digit growth in both. So, very well aligned with the organization trends. So, whether that's a big independent Homes business or the remaining is Buildings portfolio are going to do very, very well.

Warehouse Automation, now moving onto SPS, again, early days, but it's a maturing segment and one in which we're going to participate in. And then finally, Industrial Safety, another segment that's evolving and still in kind of the early days. But clearly, worker safety is very much on the forefront of the agenda of both China and India. And the regulatory environment there is changing to much more worker-oriented.

So, across our portfolio, we're excited about our potential in both China and India. Both of those are great markets, we have great management team that have both a local perspective, and the results speak for themselves. I mean, 30% growth in Q3 I think is tremendous.

Q - Andrew Burris Obin {BIO 6337802 <GO>}

It's good to know that...

A - Thomas A. Szlosek {BIO 6474485 <GO>}

I'd just add to that, Andrew, just I think your inference was that we're dependent upon HBT for growth there. But if you look at the third quarter, I mean, HBT was our slowest grower amongst all of the segments in China. So, really a strong position.

Q - Andrew Burris Obin {BIO 6337802 <GO>}

Right. I think that was the gist of my question exactly. Terrific. Thanks a lot, guys.

Operator

And we'll take our last question from Andrew Kaplowitz with Citi.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Thanks, guys. Good morning.

A - Mark Macaluso {BIO 19081474 <GO>}

Hey, Andy.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Tom, last quarter you stepped up restructuring and talked about $150 million of benefits, and it does seem like you will do a fair amount of restructuring here in the short term. I know you talked about the $150 million of benefits from that last restructuring. But will you have a greater than normal restructuring tailwind as you enter 2018? How do we look at that?

A - Thomas A. Szlosek {BIO 6474485 <GO>}

Yes. I mean, I don't think it's necessarily greater than what we would have had going into this year. In fact, if you remember, Andy, that we did the significant restructuring when we divided ACS up into HBT and SPS. There was a fair amount of delayering that took place that gave us some pretty good tailwinds as we headed into 2017.

So, in 2018, I agree, we've put a lot of capital to work on restructuring, and there is clear momentum coming. But I wouldn't say it's a multiple of the – or the tailwind that we had coming into 2017. And we'll give you more color on that as we get into our earnings outlook in December.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Okay. That's helpful. Then, Darius, Aero has been a pretty big positive surprise I think for you really the whole year, so far. How much do you think the surprise has been the early year reorganization versus just you had a confluence of events last year that were kind of negative that have gotten better here in 2017? And maybe what's been the biggest surprise in the performance here in 2017?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, yes. I mean, you're right, Andrew, I'm very pleased with how Aero is performing. I think, not that I'm surprised by it, but I am very pleased with what's happened in terms of Commercial Excellence, the business capturing the aftermarket business, the RMUs, the growth in Connected Aircraft. It's invested in that last year in Q4, around 200 people that's generating a lot of new sales and we watch that at a very detailed level.

The business continues to drive productivity so it does what I always want every business to do which is grow the top line as well as get more productive every year. And yes, that certainly – last year was a tough year, more headwinds on the concessions, but the reorganization also helped as we segregated the decision-making. It's now a faster business, it moves faster. So, I'm really pleased with how they're executing and its continued outlook for the future.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Thanks, Darius.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

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

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you. I am pleased with our continued performance in the third quarter, especially with our continued organic sales acceleration, our improved profit conversion, and our year-over-year improvement of free cash flow. We remain focused on delivering the sustained financial results you would have come to expect from Honeywell. There will be no distractions even as we work to spin the Homes and Transportation Systems businesses. I look forward to sharing more of Honeywell's successes with you and our plans for 2018 over the coming months. Enjoy the rest of your fall. Thank you.

Operator

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