Q1 2019 Earnings Call

Company Participants

- Darius Adamczyk, Chairman and Chief Executive Officer
- Greg Lewis, SVP and CFO
- Mark Macaluso, Vice President of Investor Relations

Other Participants

- Andrew Kaplowitz, Analyst
- Andrew Obin, Analyst
- Deane Dray, Analyst
- Jeffrey Sprague, Analyst
- John Walsh, Analyst
- Josh Pokrzywinski, Analyst
- Julian Mitchell, Analyst
- Nicole DeBlase, Analyst
- Nigel Coe, Analyst
- Scott Davis, Analyst
- Sheila Kahyaoglu, Analyst
- Steve Tusa, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Honeywell's First Quarter 2019 Earnings Release Conference Call. At this time, all participants have been placed in a listen-only mode and the floor will be opened for your questions following the presentation. (Operator Instructions) As a reminder, this call is being recorded.

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

Mark Macaluso {BIO 19081474 <GO>}

Thank you, April. Good morning, and welcome to Honeywell's first quarter 2019 earnings conference call. With me here today are our 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, 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.

For this call, references to adjusted earnings per share, adjusted free cash flow, and free cash flow conversion and effective tax rate exclude the impacts from separation costs related to the two spin-offs of our Homes and Transportation Systems businesses in 2018, as well as pension mark-to-market adjustment, and US tax legislation, except where otherwise noted. References to 2019 adjusted free cash flow guidance and associated conversion exclude impact from separation costs related to the 2018 spin-offs.

This morning, we'll review our financial results for the first quarter of 2019, share our guidance for the second quarter and provide an update to our full year 2019 outlook and as always, we'll leave time for your questions at the end.

With that I'd like to 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 two, Honeywell had a tremendous first quarter, delivering earnings per share of $1.92, or $0.07 above the high end of our guidance range, and up 13%, excluding the impact of the spins in 2018. The strong earnings performance was driven by organic sales growth of 8%, and 120 basis point of segment margin expansion. Our outstanding top line results were driven by continued strength in our long cycle commercial aerospace, defense and warehouse and process automation businesses.

In addition, we achieved a significant improvement in Honeywell Building Technologies, which delivered 9% organic sales growth in this quarter. The first full quarter following our 2018 spin-offs after 1% in the fourth quarter of 2018 for all of Honeywell, our long cycle backlog increased more than 10% year-over-year and continues to position us well for the remainder of 2019.

The investments we made in our sales organization, new product development and M&A in the warehouse automation business coupled by our winning positions on the right platforms in aerospace continued to drive outstanding top line results. Segment margin exceeded 20% in the first quarter, driven by smart portfolio enhancements made in 2018, continued investments in sales excellence, increased sales volumes and the benefits of previously funded repositioning projects.

I'm also encouraged by the improvement in gross margin, which increased 300 basis points in the first quarter. Our concerted efforts to improve working capital generated adjusted free cash flow of 55 -- growth of 55% excluding separation costs and the impact of the spins in 2018. Conversion in the first quarter was 82%, the highest start to the year since 2010, and represented a 14 point year-over-year improvement. I'm extremely pleased with the progress we've made in this area, while continuing to invest in our business.

As a result of our first quarter results and continued confidence in our ability to deliver, today, we're raising our full-year organic sales guidance to a new range of 3% to 6%, and earnings per share guidance to a new range of $7.90 to $8.15. We continue to expect to generate nearly $6 billion in free cash flow, with conversion in the range of 95% to 100%.

As I said in January, Honeywell is a simpler, more focused Company that continues to over-deliver on its commitments. We are encouraged by our results, particularly the organic sales growth and free cash flow, which were two of my top priorities when I took over as CEO. Notwithstanding the strong start to the year, we continue to take steps to ensure we can deliver on our commitments in a potentially uncertain macro environment should things slow down in the second half of 2019.

We took significant actions in 2018 to transform the business. The results of which you see in our performance today. A combination of strong sales growth, favorable end market exposure and significant balance sheet positions us well for the remainder of 2019. I'll stop there and turn the call over to Greg, who will discuss our first quarter results and updated 2019 guidance in more detail.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius, and good morning, everyone. I'd like to begin on slide three. As Darius mentioned, we delivered another strong quarter across all of our businesses. 8% organic sales growth was the highest we've seen since 2011 and an acceleration from 6% in the fourth quarter of 2018. All of the markets we serve remain strong.

A few highlights to mention, commercial aviation OE grew 10% organically, driven by demand for new business jet platforms; defense and space grew 13%, continuing the trend of strong double-digit sales growth; Building Technologies grew 9% organically, with strength in commercial fire and security, as well as in building solutions, particularly in India and China; and our warehouse automation and sensing and IoT businesses delivered another quarter of double-digit organic sales growth, just as they did throughout 2018, leading to 10% organic sales growth in safety and productivity solutions.

The impact of the spin-offs of our homes and transportation systems businesses, both lower margins than the portfolio, contributed 80 basis points of segment margin expansion this quarter. The remaining 40 basis points was a result of our strong operational performance, continued investments in commercial excellence initiatives and increased sales volumes.

We continue to effectively manage the impact of tariffs and material and labor inflation through our ongoing mitigation efforts and we've made further progress on the elimination of all spin related stranded costs by the end of 2019. However, we did see some volume declines in our productivity products business, which contributed to lower margins and SPS in the quarter. I'll discuss that in more detail shortly.

The majority of our earnings growth, $0.15 this quarter, came from segment profit improvement. We realized a $0.06 benefit from our share repurchase program, which resulted in a weighted average share count of 739 million shares in the quarter. Consistent with our first quarter guidance, our effective tax rate was approximately 22%, which generated a $0.04 benefit year-over-year. You will find a bridge of our first quarter earnings per share in the appendix of this presentation.

And finally, adjusted free cash flow in the first quarter was $1.2 billion, up 55% excluding separation costs and the impact of the spins. As Darius mentioned, we continue to see strong cash generation, particularly in performance materials and technologies and aerospace in the quarter. We are very pleased with our results across the board.

Now let's turn to slide four, and discuss our segment performance. Beginning with aerospace, with sales up 10% on an organic basis, we continued to perform extremely well in today's robust demand environment, driven by our strong positions on the right platforms. Notably, this marked the third consecutive quarter of double-digit organic growth for aerospace.

Defense and space grew 13% organically, led by continued global demand for sensors and guidance systems, increased spares volumes on the US DOD defense programs, and robust shipment volumes on key OE programs, including the F-35. Commercial OE sales were up 10% organically, with increased ship set volumes across all Gulfstream platforms, increased avionics deliveries on the Dassault F900 and F2000 aircraft, and increased engine shipments for the Textron Longitude. We expect this momentum to continue in the coming quarters.

In the commercial aftermarkets, sales were up 8% organically, driven by strong global airlines demand and tailwinds from ADS-B's safety mandates. In addition, we saw robust connected aircraft growth, driven by demand for JetWave and business jet software offerings. Aerospace segment margins expanded by 260 basis points, driven by commercial excellence and margin accretion from the spin of transportation systems. The spin contributed about 80 basis points of aero's total margin expansion.

Before we move on, I just want to take a moment to address questions we received regarding the unfortunate events surrounding Boeing 737 MAX aircraft. At this time, based on our customer's current production schedules, we do not anticipate a significant impact to our 2019 results. We will continue to monitor the situation as we move throughout the year.

Now moving to Honeywell Building Technologies, organic sales growth was 9%, driven by strength in commercial fire products and improved demand for our security offerings. We saw robust demand for our Niagara software platform, as well as further improvement in supply chain execution, which had been impacted in the back half of 2018 by the spins. Projects growth in Building Solutions was also strong, particularly for international airport installations in the Middle East and Asia Pacific. The projects backlog in Building Solutions was up over 15% at the end of the first quarter.

Stepping back for a minute, this quarter's performance is a result of specific actions taken by the new HBT leadership team, which is moving the business in the right direction. The team is building out a sales force and capacity, investing in innovation and they're executing the commercial excellence playbook to deploy and train a high-quality sales team. They are also focused on improving delivery and execution and are making steady progress to eliminate the remaining stranded costs related to the homes spin.

HBT's segment margins expanded 240 basis points in the first quarter, driven by the favorable impact from the spin-off of the homes business. Overall, we are very pleased with their first quarter and are encouraged for the future.

In performance materials and technologies, sales were 5% on an organic basis. Process solutions sales were up 7% organically, driven by broad-based demand in automation, including for our maintenance and migration services, and field instrumentation devices. Orders in HPS grew at a double-digit rate for the third straight quarter. In advanced materials sales were up 4% organically from ongoing demand for flooring products including for our Solstice line of low global warming refrigerants and blowing agents.

UOP sales were up 1% organically for the quarter, driven by demand in gas processing and hydrogen, particularly partially offset by a tough year-over-year sales comparable and licensing and timing related decline in catalysts shipments. We again saw strong orders and backlog growth in UOP, up 6% and 8% organically across engineering, equipment and catalysts, which is a positive sign for future sales growth.

PMT segment margins expanded 140 basis points in the first quarter, driven by commercial excellence, higher sales volumes and productivity, including the benefits of previously funded restructuring. This largely offset the impact of material and labor inflation.

Finally in safety and productivity solutions, sales were up 10% on an organic basis. Intelligrated continued to outperform, with another strong quarter of double-digit sales growth, driven by the conversion of our major systems backlog, aftermarket services and increased demand for Vocollect voice solutions. We also saw double-digit sales growth in our sensing and IoT business, which was a continuation of the double-digit growth they achieved in 2018. Our China business also generated double-digit sales growth.

Productivity solutions sales growth was partially offset by decreased volumes of scanning mobility products due to slower project ramp ups and planned distributor de-stocking, mostly in North America. We highlighted this potential weakness in the business in early March. We anticipate that the productivity projects business will improve in the second half of the year, but are planning conservatively in the second quarter given the decline we experienced in Q1.

Moving to the safety business, sales were approximately flat on an organic basis. Growth for gas detection products and retail footwear was offset by softer demand for general safety products and personal protective equipment. SPS segment margins contracted 260 basis points, driven by decreased productivity products' short cycle volumes, the impact of inflation and unfavorable mix stemming from the significantly higher sales in our warehouse and automation business, which offset benefits from commercial excellence and productivity.

Overall, the trends in our end-markets are largely consistent with what we discussed in February. We remain confident in our businesses and our view is supported by strong long cycle orders and backlog growth. Our focus on smart growth investments, breakthrough initiatives and new product development, coupled with continued productivity rigor has positioned us well for the remainder of 2019.

With that, let's move to slide five and we can discuss our second quarter outlook. Looking ahead to the second quarter, we anticipate that the business environment will be largely similar to Q1, with strength primarily coming from our long cycle portfolio in commercial aerospace, defense and warehouse automation.

In aerospace, we continue to see robust demand in both commercial aerospace and defense, with growth in narrow-body production rates and increased business jet deliveries as several new models have recently entered into service. We expect the commercial aftermarket, to continue to be strong, driven by flight hours, airlines demand and further tailwinds from the adoption of safety and compliance mandates. The industry dynamics of defense should be should continue to be positive, both in the US and abroad.

In building technologies, we anticipate continued momentum in commercial fire and security. The second quarter typically encompasses the peak season for demand in these markets. We expect continued conversion of our long cycle backlog in building solutions and growth in services. In PMT orders and backlog growth in UOP and in the automation businesses and process solutions should drive another quarter of strong sales growth in Q2.

In HPS, we expect continued short cycle demand in maintenance and migration services and field instrumentation devices. In UOP, growth will be driven by licensing, engineering and gas processing demand, while in advanced materials, we expect to see continued adoption of Solstice products in refrigerants and foam applications.

Finally, in safety and productivity solutions, we expect the strong e-commerce and warehouse distribution macro trend to continue, as well as growth in maintenance, services and voice solutions. We're expecting additional destocking in our distributor channel, and will drive a decline in mobility, scanning and print in the quarter. On the safety side, growth should improve sequentially in both gas detection and personal protective equipment and we anticipate continued demand in the retail footwear business.

For total Honeywell, the net below the line impact, which is the difference between segment profit and income before tax, will be approximately a positive $30 million to $40 million next quarter, driven by increased interest income and benefit from the spins' indemnification payments related to asbestos and environmental expenses, partially offset by lower pension income due to the 2018 pension derisking actions we took, all as previously guided.

Our guidance assumes a weighted average share count of 734 million shares, an effective tax rate of about 22% and earnings dilution from the 2018 spins of approximately $0.19 in the quarter.

Now let's turn to slide six and we can discuss our revised full-year guidance. We have revised our full year sales and earnings per share guidance to reflect our strong out-performance in the first quarter. We continue to be encouraged by our business performance and outlook. However, we are remaining cautious with regards to the short cycle portion of our portfolio given the macro uncertainties that remain in the second half of the year.

We are raising our full-year organic sales guidance by 1 point and on both the low and the high end to a new range of 3% to 6%. Our segment margin expansion and free cash flow guides are unchanged. We remain on track to deliver 95% to 100% free cash flow conversion while investing in the business through high return CapEx and research and development. The revised earnings per share guidance represents earnings growth of 7% to 10%, excluding the impact from the spins in 2018.

We continue to expect no significant impact in 2019 related to tariffs. We have mitigation actions in place, including to address the impact of potential tariffs and all remaining items imported from China. We're also closely monitoring the potential effects of Brexit on our operations and are communicating regularly with our customers, partners and suppliers around these plans. We are planning for various potential Brexit outcomes, including a no-deal Brexit scenario to ensure that as the terms of the UK's departure from the EU are finalized, we are best positioned to continue meeting our customers' needs.

Our guidance continues to reflect a weighted average share count of approximately 731 million shares and an effective tax rate of approximately 22%. Our net below the line expenses are now expected to be in the range of $60 million to $70 million of net expense in 2019, slightly down from our original estimate of $80 million in net expense. The minor change is due to slightly higher full-year estimates for both pension and interest income.

With that I'd like to turn the call back over to Darius, who will wrap up on slide seven.

Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Greg. The first quarter was an outstanding start to 2019 for Honeywell. We continue to execute on our commitments to shareowners and accelerate organic growth from last quarter. We have winning positions in attractive end markets with multiple levers to deliver continued margin expansion. Our operational performance is driving adjusted free cash flow growth and conversion. All of this, combined innovative new product offerings and a strong backlog, positions us well for the second quarter.

We're continuing the business transformation initiatives I outlined during our outlook call, including in Honeywell digital, a unified software business in Honeywell connected enterprise and the increased focus on improving our supply chain execution. You will hear more about this and other exciting things happening in Honeywell at our 2019 Annual Investor Conference, which will take place on May 14th.

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

Mark Macaluso {BIO 19081474 <GO>}

Thanks Darius. Both Darius and Greg are now available to answer any questions. April, if you could, please open the line for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question is coming from Steve Tusa with JPMorgan. Please go ahead.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey, guys. Good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Steve Tusa {BIO 4278663 <GO>}

So just doing the -- lot of companies betting on a back half acceleration, you guys are just mechanically the opposite, and just doing the normal seasonality analysis around the businesses. Is there anything specifically that worries you in the second half, because I'm getting to obviously something that's a lot higher based on just basic normal seasonal analysis on, both organic, as well as the EPS numbers, and obviously this wasn't a perfect quarter given PMT and UOP which seemingly with the backlog should bounce back nicely, and maybe have a bit of a slowing in other businesses I don't know. Just curious if there's anything that stands out that you're concerned about in the second half of the year?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I guess, I will start. I don't know that there's anything that really concerns me in the second half of the year. I think what's an unknown in the second half of the year is short-cycle business, that's sort of the big unknown. And I think the signals are mixed. I think, overall, we were pleased with our outcome in Q1, but the short-cycle business is very much that, short cycle and all of those things looked good in Q1. They can look very, very different in the second half.

On PMT, I don't know, Steve, I'm pretty happy with the PMT outcome for Q1. Whether you look at bookings, revenues, margin expansion, I'm not sure I'm really disappointed with those results at all. I am actually very, very pleased. Then when you think about things like HPS projects up strong double digits, backlog up, out book-to-bill up 1.2 in the long cycle business. I don't know that I can -- that there is much to be disappointed about there.

Q - Steve Tusa {BIO 4278663 <GO>}

Yeah. I guess my only point was on UOP. It was flattish this quarter and it should accelerate. There are reasons for it to accelerate. So, I am saying that's not a reason for it to be -- for revenues to be weaker in the second half of the year. Okay. That makes some sense. Just lastly on -- to nitpick here on SPS, what is going on with the productivity business? I mean the tone at ProMat sounded reasonably positive. Is there anything going on with the launch of Mobility Edge that's moving around a little bit? Just curious, little more color on the SPS business because that was a little bit weaker than we were expecting.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I think that's fair. Yeah. I think, couple of things. The first one being, we had some destocking in our distributor -- at our distributors. We anticipated some of that. Frankly, it was a little bit greater than we had anticipated and we think that that's actually going to continue in Q2. When you look at the product sub-segments, actually the mobility did okay. As we look at the sell-through figures for productivity products, the mobility did quite well. It was probably more of an issue on the destocking on the scanning and that's where we saw a little bit of the pain points. But I will tell you that in the second half of the year, we are anticipating growth in that business. We anticipate filling some larger orders and the destocking situation should normalize. So, yes, this Q1 wasn't exactly what we had hoped for, but I'm also bullish on the long term of the business.

Q - Steve Tusa {BIO 4278663 <GO>}

Okay. Sorry. One more quick one. Have your priorities on capital allocation changed at all? Are you guys -- given where multiples are today, are you thinking maybe a little more buyback than acquisitions, or are you still (inaudible) with this pipeline?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. No, I think, it's just -- unfortunately environment hasn't changed and mean. We would like to steer more of our deployment towards M&A, but I'm also trying to stay disciplined and the multiples continue to be high. So something is going to have to give, but having said that, we have been deploying more towards buybacks and we deployed a lot last year. Average share purchase price was right around $150, and that includes -- that's prior to the spin-off of Garrett and Resideo. So if you look at where we are today, I think, that's proven to be a pretty good investment. And we continued with another $750 million in Q1, which also it looks to be -- and I think when in doubt, bet on yourself, because there's

-- we feel great about the Company, we feel great about our prospects, we're going to continue to perform as indicated by our backlog positions, our bookings and so on. We're very confident Honeywell is going to continue to perform and thus a little bit more skewed towards buyback, but don't read into that that we're not interested in M&A. We're just trying to be disciplined and pay good valuations that are reasonable which is extraordinarily challenging in this environment and you see the multiple --

Q - Steve Tusa {BIO 4278663 <GO>}

Yes. When you're beating and raising and growing 6% to 8% you can be patient. So I get it. Thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

And our next question comes from Jeffrey Sprague with Vertical Research Partners. Please go ahead.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Thank you. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hi, Jeff.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Just two things from me. First, just back on channel inventories, maybe more broadly, is there anything that stands out in your businesses, especially in the shorter cycle businesses, where there was some type of pre-buy or something that's created elevated inventory that you're planning for some give back on beyond what we've seen in productivity solutions? Maybe just a general state of play there and your visibility to the extent that there is any on the short cycle.

A - Darius Adamczyk {BIO 18702500 <GO>}

No, there was a little bit in terms of in ERP pre-buy, because we had done some ERP conversions. And as you know, sometimes they don't go as smoothly as planned. So we generally had a little bit of a buy-in, but I don't think that was accelerated. I think there was a little bit of a mismatch between sell-out expectations and buy-in expectations, and it was particularly pronounced in productivity, especially in our scanning business. And those things just take a little bit time to normalize. And we are very confident in that portfolio, we've got a new set of products coming out here again, particularly in the warehouse and distribution segment, which we think is very interesting.

So, I'm not particularly worried about it. And like I said, we are projecting growth for the second half, but there isn't sort of something systematic here that's concerning. And a lot of our HBT portfolio is also short cycle, and you saw the kind of figures we posted there and I was extremely pleased with the organic growth that we saw in HBT, which is also primarily a short cycle businesses as well, other than HBT -- as projects --

Q - Jeffrey Sprague {BIO 1494958 <GO>}

And then, secondly, unrelated, just on the project related work in general, in process and where it may spill into gas processing in UOP, just what is the nature of the activity you're seeing? Does any particular sub vertical jump out, meaning refining or LNG or the like? And just any color there on forward pipeline would be interesting.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. I mean I think the LNG segment is continuing to be active and we are waiting with some final investment decisions to be upcoming, but whether it's UOP business which participates there as well as HPS, it's continued to be a very active sentiment. Our gas processing business and although this kind of -- this price of oil makes the unconventional segment appealing, there's also a greater level of discipline by a lot of that unconventional players in terms of cash generation, which there used to be a bit more build out the infrastructure, drill and so on. Now they want to be self-sustaining in terms of their cash flow. So the environment is good, but it's also little bit more disciplined.

But anytime you see this kind of depreciation [ph] in the price of oil, we feel pretty good about the entire PMT segment. Refining with the clean fuel segment, that also continues to be an opportunity, particularly in segments like Latin America, then of course, clean fuels for shipping as well. So sort of broad-based strength and whenever you get to this kind of an oil price, we feel very confident in the outlook for PMT.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Great. Thank you.

Operator

Our next question comes from Scott Davis with Melius Research. Please go ahead.

Q - Scott Davis {BIO 2393277 <GO>}

Good morning, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Scott.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Scott.

Q - Scott Davis {BIO 2393277 <GO>}

There is not much to pick on in this quarter for sure. Are you guys surprised that -- just the pace of how strong things were? I mean China was supposed to be a little slower, Europe was supposed to be a little bit slower. It doesn't seem like that happened at all to you guys though. Can you give some color, maybe Darius, around the world what you saw?

A - Greg Lewis {BIO 20594853 <GO>}

Yes. Scott, this is Greg. I mean, I think we were pretty pleased with what we saw across the globe as you mentioned. The US, obviously, a large part of our growth was up double digits. Europe continue to be good for us, I'd say, mid-single digits, as well. Middle East, very strong, up strong double digits in virtually every business.

China for us was down slightly, but that was really not structural in nature. We've had some very large wins in UOP that we're burning off some backlog on. So the remainder of the businesses were up double digits in both HBT and SPS for example in China, PMT down a bit. We expect that to turn positive. And I think we've guided low single-digits in China for the year in the last call and I still think that's probably about right for us. India was a very strong story for us, again, across all businesses, up double digits. So I think on balance, we had a very good performance. Obviously, the 8% total top line, better than we had anticipated, with all of those cylinders firing in the same direction at once.

A - Darius Adamczyk {BIO 18702500 <GO>}

Just to add to that, maybe is, I just would highlight the HBT performance. I mean, I think we're starting to see the seeds of better performing in HPT, and when you are close to 9% number, I think that makes us feel good. We've got some more NPD coming, particularly even more so in the second half of the year than the first. So I'm very optimistic in terms of what we're seeing in that business. And overall, the environment is good. I mean I think the market didn't quite get this right in December. I think that December was doom and gloom and recession is here and as you can see by our results in Q1 and as Greg pointed out, we see strength across the globe. We didn't have a market that really stood out to us, and said, okay, that's a train wreck. I mean, everything was either up or up a lot. So, overall, we're pleased with what we're seeing so far.

A - Greg Lewis {BIO 20594853 <GO>}

The only thing I would mention too is, back to the second half and our views there is, some of the macro risks, let's say, they're not gone. They just got pushed to the right, Brexit is an example, the US-China trade situation. So things that we thought might have perhaps come to a conclusion in Q1 just haven't and have pushed to the right and I think that's also helped from a market sentiment perspective.

Q - Scott Davis {BIO 2393277 <GO>}

Good color. Just switching gears a little bit, the connected enterprise initiative, how much of a headwind is that on margins right now or is that turned into more of a neutral?

A - Darius Adamczyk {BIO 18702500 <GO>}

No, that's actually accretive to what we do and by the way that grew in the teens again, so that --

Q - Scott Davis {BIO 2393277 <GO>}

I'm sorry, I meant the ERP, your ERP rollout, not your growth initiative.

A - Greg Lewis {BIO 20594853 <GO>}

Sorry. ERP rollouts, we're in very good shape. Yeah. I mean we continue to move down the path. We talked about the fact that we were at 148. I think we finished at -- in 2016, we finished at 71, and we're probably going to take out another 20, or so, this year on our path to getting down to 10 core platforms by 2021. And we continue to make good progress there. Lots of -- as you can imagine, lots of integrated planning going on to make sure that there is business readiness.

We've got obviously all the IT readiness there, but we've got to always manage the change that goes along with the combination of ERP moves and business requirements. But feel very good where we are, it's not been disruptive and I think we've got a good solid plan to make sure that we don't put too much in any one quarter or in any one business to add business risk.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. But it still is a mathematically headwind, though, is that correct Greg.

A - Greg Lewis {BIO 20594853 <GO>}

When you say mathematically a headwind, what you mean?

Q - Scott Davis {BIO 2393277 <GO>}

Just on the payback. I mean are you at the point yet where the payback is greater than what your dollar output is?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. I mean, from a savings and a cost out perspective, we are now at a place where our run rate cost savings has certainly ramped up, where 93% of our revenues are on our core 10 platforms. So we have hit the majority of the scale, that I would say, that we're going to get from a cost productivity perspective and most of the things that were remaining on the roadmap are cleaning up more of the smaller items.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. I think if you were to look at this, Scott, on a year-over-year basis, the impact is, I would say, very, very slightly accretive, but negligibly so.

A - Greg Lewis {BIO 20594853 <GO>}

Yes. I mean the run rate of deployment costs that we've got in the P&L is roughly flat year-on-year and each year, we're obviously adding some run rate benefits to the P&L overall.

Q - Scott Davis {BIO 2393277 <GO>}

Perfect. Thank you, guys. Good luck.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks Scott.

Operator

Okay. And our next question comes from Sheila Kahyaoglu from Jefferies. Please go ahead.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Good morning, and thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hey. In terms of margin expansion guidance for the full year, aero and HBT are tracking well ahead of that, PMT is at the high end of the range. How do we think about continued runway from here in margin expansion? And maybe as my follow-up on SPS, I understand margin mix pressure and maybe a little bit of inflation, how does that play out throughout the rest of 2019? Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Yes. So, Sheila, our guidance for the year remains at 30 basis points to 60 basis points, I believe, at this point. We've talked about that being our framework and what we continue to do is add initiatives and elements to be able to continue having that runway in front of us. And so, with things like our connected enterprise growth, which is margin accretive from a software business perspective, with our digital transformation efforts, Scott, just mentioned, things like the productivity around the ERP deployments, as well as just our HOS Gold playbook, that's driving commercial excellence into each of the businesses, and then, again, our continual repositioning pipeline, we see that 30 basis points to 50 basis points framework, that we've laid out, as very much sustainable over the coming years. So on a portfolio basis, we feel very good about where we are in that regard.

Now, as we mentioned, with this year, we're always talking about the elimination of stranded costs. We continue to see some of that impact in the first part of this year and that will dissipate. We've talked about having those stranded costs eliminated by the time we get to the end of 2019, and that will be fully behind us. So, broadly speaking, feel very good about the margin expansion potential. It is a portfolio. In different quarters and years, some business will have more or less opportunity depending on where they are in particular. And then, as it relates to SPS, and the mix component, with very high growth in the Intelligrated business as -- when we bought it, it started out below the line average for margins, and we continue to improve that as we've integrated that business, but it is still below the line average for the rest of the segment. And so as we get through the destocking in productivity products and we normalize, let's say, to perhaps growth rates that aren't multiples of double digits per quarter in Intelligrated, we expect to see that SPS margin rate continue to improve throughout the year.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. I think maybe just to add a couple of things. The framework has changed a little bit, what you're seeing is, you're seeing a much strong organic growth rate and a margin rate increase, still, that's very much, what we've committed long-term to our investors, which is the 30% to 50%. We are like smack right in the middle of that, but at a rate -- at a growth rate that's substantially higher. But if you're concerned about sort of our continued focus on margin, there is no need to be concerned there, because we have plenty of levers, even just from purely a productivity perspective, whether we think about ERP discussions we had before, the simplification in our ISC performance and overall making that much more simple, direct material productivity, we think we have more room for improvement there as well. We're going to continue to find the restructuring, just like we did this quarter and we anticipate doing more of that in the second half of the year, as well as Q2.

Ad then we still have some stranded costs to go to take out, both in HBT, as well as corporate. So we have a lot of room in terms of productivity. We were hurt a little bit in Q1 because our Intelligrated business is growing -- when I say strong double digits, I mean think really strong double digits and that's not helping the mix. But overall, we're not going to step back from something just because it's lower margin, when you can run it with negative cash flow, as well as that kind of an expansion, which will ultimately turn to a higher margin business once we establish an install base.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Great. No concern. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

We'll take our next question from Deane Dray with RBC Capital Markets. Please go ahead.

Q - Deane Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone.

A - Greg Lewis {BIO 20594853 <GO>}

Morning Deane.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Deane Dray {BIO 1722688 <GO>}

Hey. I know, Greg touched on this in the prepared remarks on those 737 MAX and I also know you guys don't disclose any of the dollar on the ship sets, but just could you share with us what's on the platform and maybe what your assumptions are and how this plays out, where it does not impact your 2019 guidance?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. Well, I think our assumption is exactly what Boeing laid out, which is their reduction in the production rates. We've encompassed that. We've numerous systems on the plane. We do expect that the delivery of these planes and their production rate to resume at the second half of this year. But as Greg pointed out, the impact for us is negligible, certainly for Q2, and I think, given that most -- just about everybody expects a resolution, we do too, we think that that's a terrific aircraft that's going to be back up and flying in the second half of the year. So I think there's really nothing more to add than that.

Q - Deane Dray {BIO 1722688 <GO>}

Great. That's helpful. And then, one of the soft spots in the fourth quarter was the whole China air and water dynamic for HBT, didn't sound like that carried into this quarter, but if you could update us there, has that normalized and what are you assuming for 2019?

A - Darius Adamczyk {BIO 18702500 <GO>}

No. Actually, air and water, to be honest, didn't have a great quarter in Q1, but overall HBT did. So, what's even more impressive about their performance is in spite challenged performance in air and water, HBT still grew 9%. So, I'm actually not discouraged by that, I'm very encouraged by that. But overall, I would say, the air and water segment is inconsequential in terms of overall annual performance. And -- but it was a headwind to HBT in Q1 and they still grew 9%. So I view that as a very positive outcome.

Q - Deane Dray {BIO 1722688 <GO>}

Good to hear. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

And our next question comes from Julian Mitchell with Barclays. Please go ahead.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi. Good morning. Maybe, a first question around the margin profile at HBT. I think you'd called out what the ex-spins margin performance was year-on-year in aerospace. Maybe just give that number in HBT, as well in Q1? And apologies, if I had missed that. And then, also, when you are looking forward for HBT, given the fairly high building solutions weighting in the sales mix, how do you think about incremental margins for HBT overall and managing that solutions mix moving around?

A - Greg Lewis {BIO 20594853 <GO>}

Yes. Thanks Julian. So, yeah, in terms of HBT, margins actually were down ex the spins in the quarter, about 100 basis points, and as we talked about, the stranded costs are still an impact to them. When you think about our stranded costs overall, It was about 60-40 between Corp and the businesses. So, HBT is still digging out of a little bit of the stranded costs hold, particularly in some of the factory aspects that they have there. So that we again expect to remediate over the course of the remaining quarters.

And then, in terms of the mix of products versus projects, certainly just like we have in our other businesses, it's no different than in PMT and even as we are talking about, with SPS, we do the projects business, is a meaningful part of HBT, and carries a lower profile than the product side as well. So we're always going to be managing through the mix of that overall, but we see -- where we landed for the quarter, I think, we were around 20 points of margin for HBT overall and we do see that progressing throughout the year.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thanks. And then just circling back on the overall top line, I was intrigued on the guidance. You took up the high end of the organic sales growth guide. So just wanted to understand why the low end --

A - Greg Lewis {BIO 20594853 <GO>}

We took up a point on the high end and then a point on the low end.

Q - Julian Mitchell {BIO 21229700 <GO>}

Yes. So I understand that the low end would go up because you have a very good Q1 print now in the bag. But taking up the high-end that would imply no slowdown year-on-year for 2019 as a whole. Just wondered if there are any specific end markets or businesses that drove that increase at the high end?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. I would say, it's our long cycle businesses. So whether we talk about PMT, we talk about the segments of aerospace, HBT, we had a very strong booking quarter and our book-to-bill was 1.2, which was also very helpful. So what we're -- what gave us the confidence for the rest of the year in raising the guidance was the long cycle bookings. Short cycle, I still will say, is unpredictable. I mean, I think our visibility there is relatively unknown, especially for the second half. And I think there is a little bit of caution that we still have in terms of our second half outlook on short cycle. We'll see how that evolves. I think you'll see some of the other commentary by some of our competitors and so on, and we're not seeing it in terms of the challenges, but that doesn't mean that they can't and won't exist, but based on what we're seeing in the business, we remain relatively bullish and that's what gave us the confidence in raising the bottom end and the top.

Q - Julian Mitchell {BIO 21229700 <GO>}

Great. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question comes from Nicole DeBlase with Deutsche Bank. Please go ahead.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Yes. Thanks. Good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Nicole DeBlase {BIO 16935492 <GO>}

So I guess maybe starting with UOP, if we could go through the outlook over the rest of the year, backlog up 8%. I know you guys have some tough catalyst comps that you're facing, that's what drove the 1Q. I guess, slight weakness versus backlog growth. If you could talk about when we should expect UOP organic growth to accelerate?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, we expected in the second half of the year. I mean, I think what's important to point out is, we had some very challenging year-over-year comps, especially with our China bookings and revenue conversion that was what drove that. But UOP had a very good orders growth. I mean, mid-single digit kind of orders growth. So there is nothing to me in UOP that's screaming a problem. Yes. I mean the year-over-year revenue growth was a little bit flattish, but again driven more a little bit by tough comps and timing. But the number that I always look at for those long cycle businesses is orders and that's mid-single digit, with a strong pipeline and this is not an area of worry for me.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Got it. Thanks, Darius. And maybe a second question around SPS organic growth outlook. So I know the Intelligrated comps are becoming pretty difficult and I think they get difficult throughout the year, if I'm correct. Correct me if I'm wrong. How do we balance that against potential improvement in productivity solutions as we get through this destocking? Like should we think of the high-single digit growth as potentially sustainable within SPS so long as the short-cycle trends behave?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I think you captured it exactly correctly. I think, Intelligrated is going to have tougher and tougher comps as we get deeper into the year, in Q2, Q3 and Q4. I mean, I can only dream that they have another quarter like Q1, but that's probably not completely realistic. So their growth on a year-over-year basis is going to be slower, but it's going to be there. But that should get offset by some of the other segments of the SPS portfolio, particularly in the second half, namely productivity products and industrial safety. So, we think that that will balance out and we're going to continue to see a rate of growth in SPS, which is, I think, mid-to-upper single digits for the year. So that's our expectation right now based on what we're seeing.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Thanks. I'll pass it on.

Operator

Our next question is coming from Andrew Kaplowitz with Citi. Please go ahead.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Hey. Good morning, guys.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Andy.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Darius, 8% commercial aviation organic aftermarket growth is the fastest growth we've seen from Honeywell in this cycle. We know aftermarket growth has been a particular focus of the aero team. But where has that improvement versus global flight hours come from? You did mention safety mandates are helping, but is it the uptick in performance-based contracting and increasing growth from connected aero is also helping and so would you agree that the trends toward continuing improved aftermarket growth for Honeywell looks sustainable moving forward?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, I mean, I think you've captured a couple of the big levers, where the growth is coming from, because we're moving away from just fixed rate kind of our aftermarket growth. That's certainly a good part of it, but the other part of it is, what I call the proactive aftermarket growth, which is much more around connected aircraft, around RMUs, which generate a lot of value for our customers. As you know, we made a substantial investment in the aftermarket, primarily in the aftermarket sales team, I think, going back two to two and a half years ago, and we've added now almost 250 sales professionals focused on driving proactive aftermarket sales. And you are seeing the benefits of that coming through. So it's both an effort in terms of generating proactive and investing in R&D to generate these RMUs, which our sales professionals sell, and then, obviously accelerated growth in our connected aircraft platform. Those are the two big drivers and I don't see any reason why that isn't sustainable.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

And Darius, maybe just staying on aero for a second, could you give us some more color on your commentary regarding commercial excellence driving margin improvement. Where are you in terms of alleviating supplier constraints within aero? How much more room is there within aero to take G&A and fixed costs in general out and should we be thinking that margin for the year could be a fair amount higher than -- I think you had guided to 24% last quarter for the year?

A - Greg Lewis {BIO 20594853 <GO>}

Sure. Maybe let me try that one on. When you think about our commercial excellence efforts, I would think about that less as a cost reduction effort because what we're trying to do is, enable our sales teams to be more effective, ensure that we're deploying and redeploying sales resources into the right spots. And actually we're investing in things like training to be able to make these sales associates more effective in the markets that they're in, with the products and solutions that they're selling. So we think about commercial excellence less as a, I'm trying to take cost out and more about, I'm trying to drive seller productivity and growth. So I don't know, Darius, if you would add to that.

A - Darius Adamczyk {BIO 18702500 <GO>}

I think I'd agree with that. But as always, we always balance everything with growth in commercial levers and productivity levers. And we put some money to work for restructuring pipeline in aero last year and we're going to continue to do that but. But yes, when we say, commercial excellence, we really mean driving productivity and outcomes growth on the front end of the business.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

I think, Greg, it's fair to say that that 24% guide looks conservative now after a strong start?

A - Greg Lewis {BIO 20594853 <GO>}

I am sorry. The what?

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

The 24% guide for the year looks conservative after a strong start to the year in aero?

A - Greg Lewis {BIO 20594853 <GO>}

Listen, I think we feel good about the place aerospace is in terms of their margin expansion potential and that's an area that gives us a lot of confidence for our overall guidance range for the Company.

Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Thanks guys.

A - Greg Lewis {BIO 20594853 <GO>}

Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question comes from Nigel Coe with Wolfe Research Wolfe Research. Please go ahead. Please go ahead, Nigel.

Q - Nigel Coe {BIO 3818998 <GO>}

I'm sorry. Hi. Having a bit of problem here with my phone. Sort of hit the mute button. Sorry about that. Good morning. So covered a lot of ground here already. HBT, the acceleration there is obviously a big break in the trends. And I'm just curious given that the separation of Resideo was -- that was a carve out from the business, do you think that the distraction around that was a factor why sales last year were a little bit weaker, and now we've seen that strength? And then, maybe just address China, because China is obviously where we've seen lot of stimulus, where we've seen some improvement in the production [ph] over there, how important is China acceleration in the HBT performance?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. Couple of factors, and the management distraction. There's no doubt that the Resideo was a heavy lift last year for the HBT team. I mean that the amount of separation work that had to be done to create Resideo, particularly vis-a-vis Garrett, is incredible. So I think that that team has did an outstanding job in enabling Resideo to exist and I continue to be very impressed by what they have done. Now, I wouldn't say -- was it a distraction? Yes. It take their eye off the ball on growth? I don't think so. But they certainly have more time to do that this year when they can be very focused on the markets, on what's happening and that team has done a great job and continue to move that business forward. So I'm very pleased.

Yes. China is important for our entire business, not just HBT. We've been there a long time, we want to be a local player. We are local player. As I've talked about multiple times on this call, which is, we very strongly believe in local strategies, where we innovate, where we come up with ideas, where we manufacture, market and sell all in the markets that we participate in and that's certainly true in China. And I think that team has -- the China team in HBT has done a nice job in creating that kind of an offering, so -- with more upside for the future. So overall, I'm not going to declare any victories after one quarter in HBT, but I certainly loved what I saw in Q1 and I'm bullish on the future.

Q - Nigel Coe {BIO 3818998 <GO>}

Yes. Thanks, Darius. And quick follow on safety, that the flat performance and safety, sounds like it's mainly channel inventories. But we have heard one or two other players talking about some weakness in safety. So I'm just curious what you're seeing in there and how that results?

A - Darius Adamczyk {BIO 18702500 <GO>}

I would characterize it a lot more as sort of a channel issue rather than anything else. And as we pointed out, that's something we need to -- that should alleviate in the first half of the year, and then we should be back at the right place by the second half of this year.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. Great. I'll leave it there. Thanks.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

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

Q - Andrew Obin {BIO 6337802 <GO>}

Hi, guys. Good morning. Thanks for taking my call.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Andrew.

Q - Andrew Obin {BIO 6337802 <GO>}

Hi. Just curious if anybody is going to top your organic growth this quarter. Let's see what happens there. Question on software growth. Can you guys -- I mean you alluded to that, but can you just talk about the growth for embedded and standalone software and what would standalone software business be in 2019 versus 2018?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, as usual, we are expecting high teens to 20% growth in our software business. That target has not changed. We grew in the teens in Q1. So I think we're very much on track. We kind of called the connected enterprise as really transforming and we are going to be doing some fun things at Investor Day. So, I don't want to give too much away and the day after in terms of new launch. For those of you that went to Hanover [ph] , you probably saw a little bit of a hint of that in terms of Honeywell Forge. But I'm excited by what's going on with that team and what they're trying to do. The embedded platform is growing nicely as well. I think mid to high single-digit growth there as well in lot of those platforms. So, overall, it's been an area of emphasis for Honeywell, it's going to continue to be and we're seeing the results in our P&L.

Q - Andrew Obin {BIO 6337802 <GO>}

Do you want to talk a little bit about Honeywell Forge ahead of the Analyst Day?

A - Darius Adamczyk {BIO 18702500 <GO>}

No. I can't steal all the thunder. I've got to have something to talk about in May and you are going to have to wait a little bit.

Q - Andrew Obin {BIO 6337802 <GO>}

Let me ask a follow-up question on 737 MAX, do you think there will be any working capital impact, just do you think Boeing will behave any differently in terms of managing payments to you during this production ramp down? Should we expect any change in seasonality in aerospace?

A - Darius Adamczyk {BIO 18702500 <GO>}

No. We are not really expecting that. I mean I think we're trying to be as helpful to Boeing and to NTSB as we can to get this thing resolved, but no, I think, from our financial or payment, I don't anticipate that will be the case. And I am confident that Boeing is going to get this issue resolved and we are their biggest fans and we're ready to help in any way we can.

Q - Andrew Obin {BIO 6337802 <GO>}

Thanks. Great quarter guys.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks, Andrew.

Operator

Our next question comes from Josh Pokrzywinski with Morgan Stanley. Please go ahead.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Hi. Good morning, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good Morning.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Just first question on UOP. I think a few folks have taken a stab at it here, but Darius, you mentioned some good momentum on the LNG side. I think one of your competitors has talked about maybe a mid-year order surge. So I guess the question is, despite the good order growth you've seen, are we still on the leading edge of some of those investments?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes. Well, I don't think we need to wait till mid year. I can tell you without getting precise on the numbers that the growth in our orders in our projects business, in HPS specifically, was, let's just call it, a strong double-digit growth. So I don't think we need to wait till Q2 or Q3. We've already seen it and the pipeline remains strong. And yes, whether it's LNG -- and it's more than LNG because it's broad based, but we are very pleased with the kind of orders we've already booked much less what's maybe in the pipeline.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

And does that start to hit in the second half? I guess, it doesn't really look like there's much in 2Q just examining guidance.

A - Darius Adamczyk {BIO 18702500 <GO>}

You mean in terms of orders or in terms of --

A - Greg Lewis {BIO 20594853 <GO>}

You are talking in terms of actually those orders turning into revenue?

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Yeah.

A - Greg Lewis {BIO 20594853 <GO>}

Again, as you know those things always have a timeframe to them. So they will probably play out over the back half of the year.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yes, When you think about HPS orders, most of those don't get executed for a course of 18 months to 24 months and sometimes even longer. So there isn't a very fast conversion from orders to revenue. In some case, that can take several quarters.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Got it. And then just shifting over to some of your short cycle comments, I think line up with what you said last quarter Darius, but thinking about some of the intra-segment comments, it seems like SPS, there's good momentum, maybe more of a destock, so things can improve from there. HBT, has a good amount of momentum you mentioned in second half, product launches that could augment that further. I guess where specifically do you see that lack of short cycle visibility or a particular apprehension, because it looks like in a lot of the exposures there is reasons to be maybe a bit more optimistic not more cautious?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, maybe I mean I don't know that I would necessarily argue with you. But actually on the short cycle, when you get into beyond three months, which is really kind of what we're talking about for the second half, I think, pretty confident in our Q2, I'm not confident that I really can give you great visibility on short cycle beyond three months. I mean there is nothing that I'm seeing that worries me. You shouldn't read into that that there is some issue that we're trying to cover or protect ourselves. I think it's just a reflection of, there's a lot of unknowns. And as I stated before on this call, we're seeing some of the commentary by some of our competitors, some of them have even reported and what we're wondering is, are we unique or is there something else that's going on in the market here that maybe hasn't hit us yet. But I don't see that. I think we're very bullish on what's happening. But again, it's just a reflection of the level of uncertainty, because I know from my past, the short cycle can turn extraordinarily quickly and one quarter can actually be a long time.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. Again, I just would say on the macros, I think we all would agree that a hard Brexit is going to have some impact, and yes, we had anticipated that that might happen at the end of March, as did the rest of the world, and now that's moved to potentially October. So that's just now pushed that worry down six months into the year. And again, I'd just same -- I mentioned it earlier, but saber rattling between the EU and the US on tariffs and the lack of a done deal with the US and China just keeps the cloud hanging over to see what's going to happen. So to Darius's point, it's not that we see something very specific that we know is coming, but there hasn't been this many macro uncertainties in the environment, certainly that I can recall.

Q - Josh Pokrzywinski {BIO 16605674 <GO>}

Understood. Appreciate the color. See you guys in May.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our final question comes from John Walsh with Credit Suisse. Please go ahead.

Q - John Walsh {BIO 20618716 <GO>}

Hi. Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, John.

Q - John Walsh {BIO 20618716 <GO>}

Hi. And thanks for squeezing me in here. Just one question around price, it looks like, you know in the Q, and this could be some rounding, you're still in that 2% zip code. I might have thought that would have ticked up a little bit, maybe it's rounding, but can you just talk about your ability to capture price? And obviously, I know within the context of tariffs and Brexit, there are other mitigating actions in there besides price, but maybe if we could just kind of isolate on price for a little bit?

A - Greg Lewis {BIO 20594853 <GO>}

Well, again, I would say, we feel very good about our pricing program and we've talked about it before that, particularly given the value our offerings generate, we feel like we're in a good position from a price standpoint. As you mentioned, tariff impacts we've been able to mitigate and some of that is through pass them through in pricing, which by the way, keep in mind that's dilutive to our margin expansion. You pass through a dollar of price and have a dollar of inflation, that actually dilutes your margin rate. So, I wouldn't say that there is anything concerning at all as we sit here about our effectiveness in passing through price at this stage.

A - Darius Adamczyk {BIO 18702500 <GO>}

And I would just add that, to us pricing is a function of really NPD and bringing valuable things to customers. So we don't really like to talk about price, as much we'd like to talk about value. And I think what you should expect is, as our NPD cycle shortens, which we've launched a whole new innovation process called Z21, which basically will reduce our innovation cycle time in half and the ratio of our revenues coming from new products will increase. That has obviously greater opportunities for value capture. So that's really sort of related to your question. And that innovation cycle is accelerating and will do so not just this year, but for many years to come.

Q - John Walsh {BIO 20618716 <GO>}

Great. I appreciate the color.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

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

A - Darius Adamczyk {BIO 18702500 <GO>}

Honeywell started 2019 with significant momentum, including strong organic sales and superb earnings and cash flow growth. We continue to execute well and still have significant balance sheet capacity to deploy. We are focused on continuing to outperform for our customers, our shareowners and our employees. We look forward to speaking with you in May. Thank you.

Operator

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