Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Deane Dray, Analyst
- Jeff Sprague, Analyst
- John Walsh, Analyst
- Julian Mitchell, Analyst
- Scott Davis, Analyst
- Sheila Kahyaoglu, Analyst
- Steve Tusa, Analyst

Presentation

Operator

Good day, everyone. Ladies and gentlemen, 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. (Operator Instructions) As a reminder, this conference call is being recorded.

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

Mark Bendza {BIO 21178179 <GO>}

Thank you, Abony. Good morning and welcome to Honeywell's third quarter 2019 earnings conference call. With me here today are Chairman and CEO, Darius Adamczyk; and Senior Vice President and Chief Financial Officer, Greg Lewis. This call and webcast, including any non-GAAP reconciliations, are available on our website at www.honeywell.com/investor.

Note that elements of this presentation contain forward-looking statements that are based on our best view of the world and of our businesses as we see them today. Those elements can change, 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 adjustments and US tax legislation, except where otherwise noted. Comparisons are to the prior year period unless otherwise noted.

This morning, we will review our financial results for the third quarter of 2019, share our guidance for the fourth quarter, provide an update to our full year 2019 outlook and share some preliminary thoughts on 2020 dynamics. As always, we'll leave time for your questions at the end.

And 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 2. This has been a very exciting quarter for Honeywell, capped off by another strong financial performance and several important recent leadership changes.

I have asked Tim Mahoney, who has been the President and CEO of our Aerospace segment for the past 10 years, to serve as our Senior Vice President of Enterprise Transformation. In that role, Tim will oversee Honeywell Digital, our global cross-functional digitization initiative that is driving improvements in customer service and efficiency. Tim's outstanding leadership has enabled Aerospace to deliver exceptional results. Additionally, within Aero, Tim led the creation of Honeywell's best digital environment. I am looking forward to leveraging that experience and having his expertise in this crucial role as we continue to evolve as a software industrial company.

Taking over for Tim as the leader of Aerospace is Mike Madsen, who previously led our Aerospace Integrated Supply Chain. Mike has also served as the President of our Defense and Space business and has held leadership roles in our Air Transport and Regional business. Mike began his career at Honeywell, who's had [ph] three decades of leadership experience here. We are fortunate to have someone with Mike's extensive background at the helm of Aerospace. These appointments are effective immediately, but Mike and Tim will, of course, work closely together throughout the fourth quarter to ensure a smooth transition.

In addition, Jeff Kimbell has been named Senior Vice President and Chief Commercial Officer, who is overseeing our sales and marketing organizations to drive profitable organic growth. Jeff joins us from McKinsey who is our partner in the transformation practice. Last, Deborah Flint has joined our Board of Directors as an Independent Director. Deborah is the CEO of Los Angeles World Airports, which is overseeing the complete modernization of LAX, including champing [ph] the use of IoT technologies. Her deep knowledge of and experience with critical infrastructure, connected buildings and advanced security solutions will be invaluable to the Board and our ongoing transformation.

We have the right leadership team in place, a deep bench of up and coming leaders, an engaged and experienced Board of Directors that will help us continue to deliver the results you've come to expect from Honeywell.

Turning to Slide 3, let's discuss a few of our recent highlights and wins. Through our Honeywell Connected Enterprise, we launched Honeywell Forge Cybersecurity, aimed at helping customers identify and act on cyber-related incidents. We once again had double-digit growth in total connected software sales as well as continued growth in connected orders during the quarter.

We announced that Honeywell was appointed by Kuwait Integrated Petroleum Industries to provide technology and production systems to the Al-Zour refinery, which will be the largest integrated refinery and petrochemical plant ever constructed in Kuwait. In addition, Honeywell was ranked 13th on Forbes' 2019 World's Most Reputable Companies for Corporate Responsibility. Our position on this list is a testament to all we have done and continue to do to be strong advocates for the environment, our diverse employee base and our communities.

Now, onto Slide 4. In the third quarter, we continued to drive strong financial results, delivering adjusted earnings per share of $2.08, $0.06 above the high end of our guidance range. We grew organic sales by 3%, driven by the strength across Aerospace, as well as in our Process Automation and Building Technologies businesses.

Aerospace generated double-digit organic sales growth for the fifth straight quarter, driven by our strong positions on key platforms, robust defense portfolio and ongoing demand for aftermarket services. Our long-cycle backlog was up approximately 8% year-over-year, driven by Defense and Space and UOP bookings, as well as the strong warehouse automation orders and HPS projects orders which each increased over 20% in the quarter, positioning us well for the remainder of the year and into 2020.

Organic growth, combined with the benefits of the portfolio enhancements we have made in 2018 and our operational excellence initiatives, drove segment margin expansion of 180 basis points, with segment margin again exceeding 21% this quarter. Excluding the favorable margin impact from the spin-offs, segment margin expanded 80 basis points, which was 40 points above the high end of our guidance.

During the quarter, we generated $1.3 billion adjusted free cash flow. We remain focused on our working capital management at every level of the organization and expect to deliver our cash flow commitment for the full year.

As we've done throughout the year, we continue to execute on our disciplined capital deployment strategy. During the quarter, we repurchased $1 billion of Honeywell shares and announced a 10% increase in our dividend, our 10th consecutive double-digit increase. We also closed three Honeywell Venture investments and completed the acquisition of TruTrak Flight Systems, a leader in autopilots for the experimental light sport and certified aircraft.

In the first nine months of 2019, we have deployed $5.5 billion to share repurchases, dividends and acquisitions. Additionally, during that quarter, we issued $2.7 billion of senior notes to refinance October debt maturities at attractive interest rates, further strengthening our balance sheet. I am very pleased with our performance this year. I'm confident, the team will continue to execute and deliver our full-year plan.

With that, I will turn the call over to Greg, who'll discuss our third quarter results in more detail and provide our updated full year 2019 guidance.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius, and good morning, everyone. Let's begin on Slide 5. We posted another strong performance in the third quarter, building on the great first half in 2019.

Aerospace had another double-digit organic growth quarter. Sales were strong across Process Solutions, UOP's licensing and refining catalyst businesses, and Building Products. Honeywell Connected Enterprise drove double-digit growth in connected software. SPS contracted during the quarter, but the turnaround in productivity products is progressing and the large order bookings we anticipated in Intelligrated have begun to materialize, as evidenced by the over 20% growth in orders during the quarter.

The impact of the spin-offs of Garrett and Resideo in 2018, both lower margin businesses at the time of the spin, contributed 100 basis points of segment margin expansion this quarter. We will lap the favorable impact of these actions in the fourth quarter. The remaining 80 basis points of this quarter's expansion was the result of our business performance in Aerospace, Building Technologies, and Performance Materials and Technologies, partially offset by the year-over-year margin decline in Safety and Productivity Solutions that we had signaled previously.

Adjusted earnings per share were $2.08, up 9% excluding the spin-off impact. Adjusted earnings per share excludes a $114 million tax adjustment associated with withholding taxes in connection with the fourth quarter of 2017 US tax legislation charge. With that benefit, reported earnings per share in the quarter was $2.23. I'll talk in more detail about EPS on the next slide.

Adjusted free cash flow in the quarter was $1.3 billion with conversion of 85%. Our total adjusted free cash flow for the first nine months was $4 billion, up from $3.9 billion, excluding the spins in the first nine months of 2018. Cash conversion for the year has been impacted by the timing in our projects businesses, primarily in Intelligrated and PMT. Overall, a very good performance for the third quarter and above both our margin expansion and our EPS guidance ranges [ph].

I'm now moving to Slide 6 and the adjusted earnings per share bridge from the third quarter of 2018. Consistent with last quarter, the majority of our earnings growth, excluding the spins, came through segment profit improvement, $0.14. That was driven by organic sales growth, continued productivity improvements realized through our operational excellence initiatives, and savings from previously funded repositioning projects.

Our share repurchase program, with which we have deployed $3.7 billion year-to-date, has resulted in a 3% reduction in share count from last year and provided $0.07 of earnings improvement. Our adjusted effective tax rate was 22%, consistent with last third quarter and the outlook we previously provided.

Below the line items were a $0.03 headwind this quarter compared to last year, primarily due to lower pension income as a result of the pension derisking actions we took in 2018 and the higher funding of new repositioning projects. We funded a substantial amount of high return projects, more than $70 million in the quarter, which will support our continued productivity focus, transformation and supply chain initiatives and will also help drive segment margin expansion and earnings growth in a range of macroeconomic environments.

Overall, third quarter adjusted EPS was $0.06 above the high end of the guidance we provided in the second quarter. Our better-than-anticipated performance was primarily from stronger segment profit in Aero, SPS, as well as acceleration of stranded cost removal. The below the line expenses were about $0.03 lower than we had expected, partially due to benefits from foreign exchange. So in total, EPS grew 9% this quarter, another great result, adding to our already strong start to the year.

Now, let's turn to Slide 7 and discuss the segment performance. Starting with Aerospace, sales were up 10% on an organic basis, continuing an outstanding year for the business. Commercial aftermarket grew 6% organically, with strong demand across both air transport and the business aviation.

Defense and Space grew 17% organically, led by global demand for guidance and navigation systems, as well as increased aftermarket volumes on key US Department of Defense programs. Backlog for Defense and Space is up nearly 20%, and more than two-thirds of orders with delivery through 2020 are booked, giving us confidence the business is poised for continued growth next year.

In Commercial OE, sales were up 7% organically, driven by growth in air transport shipments and continued strength across business jet platforms. We saw increased deliveries across major OE business aviation platforms and high demand for components in air transport. As we've discussed previously, we remain aligned to Boeing's stated production schedule for the 737 MAX and we'll continue to monitor the situation closely. But at this point, we have not seen and do not anticipate a significant impact to Honeywell in 2019.

Commercial aftermarket sales growth was driven by demand across both air transport and business aviation, led by growth in retrofit, modifications and upgrades. In addition, demand for Honeywell Forge for aircraft drove double-digit JetWave organic sales growth.

Aerospace segment margins expanded 350 basis points, driven by commercial excellence, productivity net of inflation and margin accretion from the spin of Transportation Systems. The spin contributed approximately 100 basis points to Aerospace's total margin expansion. As a reminder, this is the last quarter we'll have the benefit of spin accretion in Aero. We expect Aerospace's strong organic sales growth and segment margin expansion to continue into the fourth quarter.

In Honeywell Building Technologies, sales were up 3% organically, primarily driven by ongoing strength in commercial fire products in the US, double-digit growth across our suite of building management products, which was aided by improved supply chain execution, and strong demand for our Tridium connected software platform. Notably, in Europe, the quarter finished stronger than expected after seeing a soft market in the first two months, particularly in Germany. Building Solutions was flat in the quarter with projects growth across both the Americas region and the airport vertical, which were offset by declines in the energy business.

HBT's segment margins expanded 390 basis points in the third quarter, driven by the favorable impact from the spin-off of Homes business. As a reminder, this was the last quarter we'll have the full benefit of the Homes spin accretion, given that the spin occurred at the end of October 2018. Segment margins excluding the impact from the spin accretion were up 10 basis points this quarter and have continued to show improvement quarter-to-quarter since the beginning of 2019. Overall, it was another good quarter from the HBT team.

Before moving on, I'd like to remind everyone that the Building Technologies leadership team is hosting an Investor Showcase event November 20th through the 21st at our headquarters in Atlanta, Georgia. Vimal and his team are going to provide a deep dive into each of the businesses and highlight our strategy and the technology offerings we bring to the market. I encourage you to listen to the webcast online.

In Performance Materials and Technologies, sales were up 3% on an organic basis. Process Solutions sales were up 7% organically, driven by strength across the entire automation portfolio. We saw growth in maintenance and migration services, gas (technical difficulty) products, and automation projects and software. Orders and backlog across PMT were both up high-single digits with particular strength in the product businesses -- in the projects businesses, notably seeing some movement in global mega projects, specifically in Russia and China, giving us confidence in the momentum of this business.

In UOP, sales were flat organically with growth in refining catalysts and licensing offset by declines in gas processing due to fewer domestic cryo unit sales, given a softer midstream gas processing market in the US. We again saw strong double-digit orders and backlog growth in UOP with strength in equipment and petrochemical catalysts, positioning us well for growth going forward.

Organic sales in Advanced Materials were down 2%, driven by lower volumes and pricing in flooring products due to the impact of illegal HFC imports into Europe and weaker end market demand in specialty products. We are actively working in partnership with private industry, EU regulators and EU member countries to address the harmful illegal HFC imports. While these efforts are underway, we will continue to see pressure on HFC pricing and volume.

Overall PMT segment margins expanded by 60 basis points in the quarter, driven by direct material productivity, commercial excellence and organic growth.

Finally, in Safety and Productivity Solutions, sales were down 8% on an organic basis due to distributor destocking and fewer large project rollouts in productivity products and the impact of major systems project timing in Intelligrated. Segment margins contracted 320 basis points for the quarter, driven by lower sales volumes, which, while down year-over-year, was 110 basis points better sequentially than the second quarter. The management team has taken appropriate cost actions to address the volume deleveraging, mitigating some of the softness this year. They will continue to realign the cost structure in the fourth quarter as we work through the revenue challenges.

In productivity products, we continue to make progress in the commercial turnaround. Channel inventory levels are burning [ph] down as expected and are on a trajectory to reach normalized levels by the end of 2019. In our Intelligrated warehouse automation businesses, as we've previously mentioned, a large portion is project-based, which results in uneven growth patterns. Recent market data from Siemens' September semi-annual release highlighted this order contraction in the first half across the material handling market. They are experiencing high-double digit 29% order contraction with 2% shipment growth. Our sales were down double-digits this quarter as a result of the difficult comps and the timing of major systems shifting to the right. The pipeline of major systems orders we highlighted previously have started to convert with orders up more than 20% year-over-year in the third quarter. The bulk of the sales stemming from these orders will start to show up in 2020. Intelligrated's aftermarket service business continues to benefit from our large and growing installed base, again having a strong double-digit growth from ongoing demand for life cycle support and services.

Moving to Safety, organic sales for the quarter were flat, as continued demand for our gas detection products was offset by decreased volumes of general safety and personal protective equipment. So overall for the portfolio, a strong performance for the third quarter.

With that, let's turn to Slide 8 to discuss our fourth quarter outlook and the updated full year 2019 guidance. We delivered strong results in the first nine months of 2019 with higher segment profit and earnings per share in the third quarter than initially anticipated, and we're seeing continued strength in several key markets. However, we remain somewhat cautious in our outlook, given the continued uncertainty in the macro environment, and the full year continues to be solidly on track.

We expect organic growth in the fourth quarter in the range of 2% to 4%, which will be driven by continued strength in Aerospace and Defense, coupled with ongoing demand in Building Products and Process Automation, supported by a healthy backlog in UOP and continued growth in connected software through Honeywell Connected Enterprise. We expect continued segment profit and segment margin growth with year-over-year improvement of 20 basis points to 50 basis points, excluding the impact of the 2018 spins, resulting in segment margins in the range of 20.7% to 21% in the fourth quarter.

Let's look at the segment outlook in a little bit more detail. In Aerospace, we continue to see strong demand in both business aviation and in US defense, supported by robust orders growth and firm backlogs for orders with delivery into 2020. We will see tougher comps in business aviation OE and defense, given the double-digit organic sales growth in the fourth quarter of '18. So we expect the growth to moderate slightly.

In Building Technologies, we expect continued strength in commercial fire products, driven by demand in the Americas, continued strength in software and increased project growth in high growth regions. In Performance Materials and Technologies, we expect to see continued growth in products and services in Process Automation, and we expect healthy demand in UOP from the strong backlog, particularly in the equipment business. The headwinds in the Advanced Materials business from illegal imports of HFCs will persist into the fourth quarter.

Finally in SPS, we continue to expect distributor destocking in productivity products to remain a headwind for the remainder of 2019 from both the sales and segment margin perspective. We expect another very strong quarter for Intelligrated orders, but sales will again be unfavorably impacted by the tougher comps and the timing of those major system rollouts.

The net below the line impact, which is the difference between segment profit and income before tax, is expected to be approximately $155 million in the fourth quarter, as we continue to fund repositioning pipeline. We expect the adjusted effective tax rate to be between 20% and 21% in the fourth quarter and the average share count to be approximately 723 million shares.

So now, let's move on to Slide 9 and we could talk about our updated full-year guidance. On this slide, you can see the progression of our guidance throughout the year. We've delivered strong results each quarter, continued to expand margins and driven adjusted earnings per share growth of approximately 10% year-over-year, despite some deceleration in organic growth as the macro environment has become increasingly less stable in the second half.

Based on our year-to-date results, we are again raising the low end of our adjusted earnings per share guidance by $0.15. We are narrowing our reported sales range to $36.7 billion to $36.9 billion with organic sales growth expected to be in the range of 4% to 5%, reflecting a tougher second half, but above the midpoint of our original sales guidance this year. We are raising the low end of our segment margin guidance by 20 basis points to a new range of 20.9% to 21.0%, reflecting the progress we continue to make in driving profitable growth.

We're also reaffirming our adjusted free cash flow guidance to be in the range of $5.7 billion to $6 billion as we remain focused on improving working capital and driving cash throughout all Honeywell businesses. Our higher full-year adjusted earnings per share guidance of $8.10 to $8.15 represents earnings growth of approximately 10% excluding the impact of the spins. This is an increase of $0.08 at the midpoint from our most recent full-year guidance, passing through the third quarter beat of $0.08 as compared to the midpoint of our third quarter guidance range. This latest update, an additional $0.15 low end raise, takes us to a $0.30 raise in EPS from the low end of our original guidance range of $7.80 to $8.10 at the beginning of the year, demonstrating the strong progression throughout 2019.

We continue to be confident in our ability to execute even in difficult environments, and these updates reflect that. We have planned for and executed mitigations against externalities such as tariffs. We've taken appropriate and targeted cost actions to reduce cost in areas where we believe the most exposure to macro instability and market weaknesses lie. As a result, the momentum we built throughout the third quarter and a strong finish in Q4 will carry through for an excellent performance this year.

With that, let's turn to Slide 10 and discuss some of what we're seeing as we head into 2020. As we head into next year, we're seeing indicators of strength in many of our key end markets, but economic instability remains. It's clear that growth outlook for the overall economy will not be as robust as it has been in 2018 and 2019. We do see continued demand growth in key industries though where we have strong positions. Commercial aftermarket activity will be driven by increases in flight hours though at a slower pace, solid airlines demand, ramping of platforms that recently entered into service, and continued stable defense budgets. These drivers across end markets in Aero -- these drivers across end markets position Aero well for good growth in 2020, albeit at more moderate levels. Our continued focus on productivity, commercial excellence and our transformation initiatives gives us confidence to sustain our margin improvement path though likely at a slower pace than 2019 in Aero.

Non-residential construction growth with slight moderation should enable continued demand for Building Technologies products and services and the product -- and the progress Vimal and team are making in operational excellence and new product introductions should provide the opportunity for accelerated margin expansion, continuing the positive trend that we've seen in HBT through 2019.

In PMT, we expect Process Automation to continue to grow, and we've had continued strong orders and backlog growth for UOP, which positions us well going into next year. Macro data is suggesting that the softer market in the US midstream oil and gas continues, which will affect the gas processing business. The negative impact in Advanced Materials from illegal imports of HFCs into Europe, while being proactively addressed, will likely continue into 2020. We do expect that a growing set of actions that the European Union is beginning to deploy relative to enforcements, fines and seizures should result in the slowdown and ultimately the elimination of the illegal imports of refrigerants into the region.

In SPS, productivity products is progressing on its turnaround, and we expect to return to growth and margin expansion during 2020. The second half build of backlog with major systems project awards for Intelligrated's warehouse automation solutions will provide a tailwind to accelerate growth into next year. And across end markets, we expect Honeywell Connected Enterprise to continue to drive double-digit connected software growth as we see strong initial demand for our Honeywell Forge offerings, and we'll continue to launch updates for Forge throughout 2020.

In summary, we're well positioned in key verticals and end markets with ongoing operational excellence initiatives across all businesses to drive productivity and margin expansion. We have a robust playbook with multiple levers to protect profit in the event of a market slowdown and significant balance sheet flexibility to generate strong returns through share repurchases and M&A. Our three transformation initiatives, the Connected Enterprise, Integrated Supply Chain and Honeywell Digital, will continue to provide catalyst for profitable growth.

So, while 2020 is shaping up to be a challenging year, we're confident in our ability to continue to deliver. As we did last year, we will provide more detailed guidance once we close out the full year of 2019.

With that, I'd like to turn the call back over to Darius who will wrap up on Slide 11.

Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Greg. Overall, we are pleased with and encouraged by the performance from our businesses in the first three quarters of 2019. We continue to execute on our commitments to shareowners, are generating strong organic growth in many end markets and have many ways to further expand margins and grow earnings. We continue to invest in our businesses' growth initiatives and deploy capital to generate high returns. Our track record of execution continues, and we're making progress in our business transformation initiatives, including Honeywell Connected Enterprise, Honeywell Digital and supply chain transformation. We still have a lot of work to do with these initiatives, but I am pleased with the early progress and the significant opportunities they provide for Honeywell.

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

Mark Bendza {BIO 21178179 <GO>}

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

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

Our first question is coming from Sheila Kahyaoglu with Jefferies. Please go ahead.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hi. Good morning, everyone, and thank you for the time.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Darius, maybe for you on Aerospace, can you talk about this business a little bit. How you're thinking about it as part of Honeywell longer term? Does it get bigger or maybe even smaller? I ask this because the management change, clearly, but I look at five quarters of double-digit organic growth and operating margins close to 27%, and I ask myself is this as good as they get? So maybe if you could just touch upon that for a second.

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, yeah, I think it's pretty good. Anytime you get double-digit growth and record margins, it's terrific, but we don't think that, that kind of growth is far from over. Maybe certainly, we're in a very favorable economic conditions, but as we kind of look into 2020, we continue to be bullish on this business. The management change really has nothing to do with the market conditions. I think frankly, Tim has a core of skill set that's very unique to what we're trying to accomplish in Honeywell Digital. We're trying to template what was done in Aerospace because they're substantially more advanced than rest of Honeywell.

Tim expressed the desire and I fully agreed and encouraged him to take out a new role to wrap up kind of his career. And Mike Madsen has been a terrific leader for decades in Honeywell. So I think that this is kind of a natural transition. But I wouldn't read into the management changes has anything to do with Aerospace market conditions. When I point to figures such as 60% [ph] of our orders already backlogged through 2020; I think flight hours are going to continue' our aftermarket business is strong; there's a lot of DGA platforms that are ongoing; production rates are strong. Hopefully, we'll see the 737 MAX return to higher production rates and back to service. So I don't see any kind of a doom and gloom scenario for the Aerospace segment for the foreseeable future. As a matter of fact, I'm quite bullish on it.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Thank you very much. No, I didn't imply that about Tim. I think Mike and Tim are probably good partners. And then just upon the Defense business, do you see that slowing down into 2020? You've mentioned before that you're trying to sell out for all of 2020. Kind of how you think about the growth profile above [ph] 40% of Aero?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think the tough -- the comps are going to get obviously tougher because you've had double-digit growth for five consecutive quarters, but I don't think that there is -- I am anticipating any kind of a crash or negative growth. We are still expecting to grow next year. That's the expectation. Those are early plans. We're going to provide you more detail in early 2020. But overall, the business continues to have levers for growth and also for continued margin expansion, because I think something that gets dramatically understated is our focus on productivity, which you saw in our margin profile this quarter, which is continuing to restructuring, driving Honeywell Digital, ISC transformation, the Power of One and the commercial and fixed cost side. And you see that coming through in our numbers. So no matter what the market conditions are, that's part of the Honeywell bylaw.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure, you're welcome.

Operator

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

Q - Scott Davis {BIO 2393277 <GO>}

Hey, good morning, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Scott.

Q - Scott Davis {BIO 2393277 <GO>}

One of the things -- if you guys don't mind going around the world a little bit and give us some more granularity on what you're seeing in specifically China, I guess, and then Western Europe, maybe even Brazil, Mexico, et cetera.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. I think overall, despite some of the negativity in the news, we actually saw pretty good growth, both from a revenue and orders perspective. By far, China had the best quarter of the year. I think mid-single digit in terms of revenue growth, strong double-digit orders growth, bookings up double digit. So actually had a very, very good quarter in China. Our long cycle businesses performed extraordinarily well and it was a good quarter.

Despite what we read in Europe, Honeywell had a very strong quarter in Europe as well, up mid-single digits, strong growth across the board. Probably the only exception was Italy. We had a little bit of a tougher -- but overall, Europe was strong. LATAM actually had a pretty good quarter as well, and they were up, think about kind of mid-single digit growth. And again, with some of the challenged economies there, it was a bit -- it was a pleasant surprise based [ph] on how we're doing.

Russia actually did well. Middle East did well. A little bit of the soft spot was India, which was a bit unusual for us in Q3, but we're still expecting in India double-digit growth for the year. So I'm not particularly alarmed by the one data point. And then US obviously continues to be strong. So overall, if [ph] I look at revenues and more importantly orders, which is what positions us for 2020, it was actually a pretty strong story and one that was very encouraging.

Q - Scott Davis {BIO 2393277 <GO>}

Good to hear. And just a completely different follow-up but just be -- what does the customer adoption of Forge look like in the context of -- is it kind of trialing and saying we will give this a try for a year? Is it more longer-term contracts? Is there something in the middle? Is there some sort of standardized agreement that starting to emerge as you get deeper into this?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think, Scott, that that varies based on the franchise. First, some of the connecteds are further ahead than others. For example, in Q3, we had connected buildings and the cybersecurity leading in terms of strong double-digit growth. Some of them are a little further behind. We have more mature offerings, I would say, in cyber, in the aircraft segment, the building segment, some of them are still in the development stage. So some of them are -- that's typically how you start an engagement with a customer. You kind of do a proof-of-concept. The customer is happy. That proof-of-concept moves on for assignment. So we've some that are in a broader rollout stage and some that are in a proof-of-concept stage. As an example of our success, we've had a major player in the Middle East do a proof-of-concept for us, which was highly successful. And that same player is now rolling out our Forge solutions to their entire oil and gas infrastructure, which will be worth millions of annual dollars per year. So I think it's just depends which one we're talking about, but I think overall, Forge was still in the early innings and we're just launching the various Forge offerings.

Q - Scott Davis {BIO 2393277 <GO>}

Well, good luck to you. Thank you, guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks.

Operator

Moving next, we'll go to 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, Steve.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Steve Tusa {BIO 4278663 <GO>}

Can you just first walk through anything in the model for fourth quarter with regards to the segments that you'd want to highlight? SPS is obviously one that, I think, would be helpful to get a little bit more kind of pointed guidance around, whether it's organic growth or profits, and any of the other businesses that we may see variability outside of just kind of normal seasonality and comps.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. So I think you're going to see something pretty consistent with what we've -- what we've just done in the third quarter. Obviously, there is variability ranges around all of them. But as I described, I think Aero is going to continue to lead the pack from a growth perspective. And I think we're going to see mid-single digit kind of growth, low-to-mid single-digit kind of growth in PMT and HBT, and I would expect to see SPS down single-digits again in the fourth quarter.

And on an orders perspective, as we talked about in the prepared comments, where we had a great Intelligrated quarter, 20% plus growth in orders, and we have been talking about those major systems projects coming in. We expect more of that in the fourth quarter, and that will help us get set for next year.

And then with the -- from a margin expansion perspective, I think you're going to see the -- obviously the removal of the spin comparison is going to change the overall reported numbers, but I would expect to see margin ranges that are going to look fairly similar from third into the fourth quarter, broadly speaking. It's the same playbook. I don't expect like a big divergence from one quarter to the next in any particular business.

Q - Steve Tusa {BIO 4278663 <GO>}

Is 15% margin still a credible number at SPS? And if you don't see progress there over the next kind of 12 months, what kind of actions can you take?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I think 15% is still a credible margin rate to build back from as we enter into 2020. And again, if you look at productivity products as an example, it's essentially kind of flattened out. So we're showing organic declines, but the absolute value of the revenues has really kind of flattened out over the last few quarters. And so -- and as we talked about, in the channel, that inventory level is going to come down to a normalized level in 4Q. So as that begins to reaccelerate and as we continue to get additional growth in the aftermarket side in Intelligrated, I absolutely expect to see margins continue to bounce back and expand into 2020.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. And just to add a couple of things to that. One is, I think, although maybe at a high level, obviously, we would like to print better results from SPS, but in terms of productivity products, we're executing what we should be executing. The inventory levels are dropping and our -- and we know exactly what they are. They dropped double-digit kind of base [ph] in Q3. We see our sales out data improving. We see better activity -- commercial activity on our tier 1 wins. So it's still not resulting in the financial results we'd hope to see, but the progress from Q over Q is good. We've also enhanced some of the talent in that business and we've had some new people join. So I would say that for productivity products, we're very much on track.

Intelligrated, which is maybe the other part of the story, I think as we discussed at the end of Q2, we've got exactly the orders we expected to get, 24% growth in Intelligrated year-over-year. They came in late. They came in late in September, which egregiously [ph] when they come that late and it's still projects kind of business, it takes at least a couple of months to convert orders -- at least to begin to convert orders into revenues. So probably, we won't see more of that until we get to next, 2020. But the other expectation I want to highlight is, we're expecting another robust booking quarter in Intelligrated in Q4 this year. So I think we're -- I'm not worried at all about what's going on in Intelligrated. I think the market has been challenged in the first half of the year. When you look at data points from Siemens and some of our industry competitors, I think we're very much in line or even better than some of them. So I'm not -- I think (multiple speakers).

Q - Steve Tusa {BIO 4278663 <GO>}

One last quick one for you just on Aerospace. Is the -- can you just talk about what the combination of any kind of potential headwinds from upgrades from this year, combined with kind of the Honeywell-specific growth initiatives, whether it's connected or anything like that, is that a neutral to next year year-over-year? Is that still a positive, a slight negative? Can you just discuss the kind of dynamics between those two moving parts?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I'm sure -- I think the short story is kind of neutral. I think what we get into next year is probably a little bit tougher comps, given the double-digit growth rates. So I think that that's realistic. There are some puts and minuses. The 737 MAX, we anticipate they will be back in service next year. So that will get a little bit more OE. Probably some of the older aircraft will not be flying, so we'll probably have a little bit more of the aftermarket stream.

I think business aviation will continue to be robust. We're very bullish on Defense and Space. We're seeing good growth in space and the helicopter markets again. I think probably the toughest things on a year-over-year basis will be the comps. The comps will be tougher. But I'm not sure there is any kind of major one timers that I think would prevail. In terms your RMUs and so on, we're continuing to invest. And our MPD [ph] engine on that has been very successful for us. And obviously, Forge will grow. So that's -- those are kind of the major puts and takes.

Q - Steve Tusa {BIO 4278663 <GO>}

Great, thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question will come from Jeff Sprague with Vertical Research Partners. Please go ahead.

Q - Jeff Sprague {BIO 1494958 <GO>}

Yeah, thank you. Good morning, everybody.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Jeff.

Q - Jeff Sprague {BIO 1494958 <GO>}

Just a couple of things from me. First, could you just elaborate a little bit on what's going on with the net below the line items, what's driving the change from your prior outlook to the current outlook, restructuring and other...

A - Greg Lewis {BIO 20594853 <GO>}

Primarily the $0.03 favorability, again, roughly $30 million in the third quarter, a lot of that has to do with foreign currency, and there is still a number of other things below the line. So basically, the $50 million delta is $30 million of our actual 3Q and a $20 million round about lower number in the fourth quarter. Again, no -- there is no huge needle mover in there and there is going to be a range around that number too. We say about $155 million, but that will move around a little bit as well.

Q - Jeff Sprague {BIO 1494958 <GO>}

There's some other stuff moving around like other income and pension and the like. What's the actual restructuring outlook for Q4?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, we've got a sizable capacity. If you remember, I think we booked something like $300 million of restructuring in 2018 in the fourth quarter, and we've got capacity loaded in there for something similar. We're working our pipeline and we're -- as we always do, we continue to carry that restructuring pipeline and we'll take advantage of the projects that we have as we exit the year.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think maybe, Jeff, just something else to it, we kind of give you a point number on below the line impact, and I think that's approximately -- I think we're probably going to revisit that for next year because it really isn't a point number. There is some movement in it. It can happen from quarter to quarter. And I think to be that precise and give you that precise number, it's probably a little bit inaccurate. We try to get as close as we can to our estimates, but we have some moving pieces in there that Greg just described. So I think we had -- I don't think there was anything major that moved. There is no major assumption changes, but couple of little things moved, $20 million or $30 million which, given the size of our company, isn't much, and you'll get a different outcome. So I wouldn't read too much into it.

Q - Jeff Sprague {BIO 1494958 <GO>}

Understood. And then just on the projects, the late -- the long cycle order dynamics, and quite encouraging. Can you just elaborate a little bit on the cash flow impact of that? It does sound like maybe the cash cycle on some of this is stretching out a little bit. What kind of opportunity do you see perhaps to unlock some more cash from working capital or other elements in the next year?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I would say that's -- you used the right word, it's the cash cycle. I wouldn't call it a problem. We had obviously very strong projects-related results as we were in last year and then coming into the early part of this year, and that's cycled down a bit with the orders pattern that we had seen previously. And now, if that cycles back up, you're going to restart the advanced cycle on a lot of those large projects, and so we expect to start seeing that coming back through.

And then we continue to do a lot of work around inventory as well. Our inventory, while hasn't been a huge year-over-year cash flow comp problem for us, it's still growing, and we're trying to take that down every year as we try to become more and more efficient. So we're still working our initiatives around trying to drive inventory down as well and we hope and expect that's going to be supportive as we continue to move into the fourth quarter and into next year from a free cash perspective.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, as Greg pointed out, I think the biggest mover for us here in the Q3 was sort of this movement around the advances/unbilled in much of our projects business. That's really the biggest needle mover. We got a lot of our orders delayed. We weren't able to collect the cash. And from a last year perspective, a lot of those orders came in earlier in the year, so we had the benefit of the advances. That's not the case this year and that was a big swing. I would -- maybe not as big of a factor, but our reinvestment ratio was the highest in Q3 versus the whole year. So that's probably the other factor, although not the major one for the cash outcome.

Q - Jeff Sprague {BIO 1494958 <GO>}

Great, 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 - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Dean.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Deane Dray {BIO 1722688 <GO>}

Hey. On PMT and process in particular, it was impressive to hear about these projects in Russia and China. We've heard from your competitors in process about push-outs of projects in particular. And are you seeing push-outs anything at the margin that you'd call out?

A - Greg Lewis {BIO 20594853 <GO>}

We were actually very pleased with our global major projects this quarter. We were up strong double-digit actually in that segment. So that was one of the really nice stories for us for the quarter, probably even better than we expected, so really, really nice progress. And Q4 looks quite robust as well. So hopefully, we'll be able to secure those as well. But I think that was one of the more positive stories for us in the quarter and good orders growth in Russia, China, some of the economies that have been -- that are presumably challenged but, frankly, we're not seeing that.

Q - Deane Dray {BIO 1722688 <GO>}

Got it. And this might be a bit of a rhetorical question, but based upon the upside in Defense and Space this quarter, the 17% growth in core revenues and commentary about 2020, are you -- do you see Honeywell disadvantaged at all in some of the defense industry consolidation that we're seeing?

A - Darius Adamczyk {BIO 18702500 <GO>}

No, I don't. We're not generally a final system provider. We are a component tier 1 provider to those. I don't think that calculus changes with the consolidation that's happening. We continue to be a good supplier to a lot of those integrators and system providers, but I don't see that dynamic changing.

Q - Deane Dray {BIO 1722688 <GO>}

That's helpful. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks Dean.

Operator

Moving next to Julian Mitchell with Barclays. Please go ahead.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning. Maybe just a first question around -- if you look at how demand trended in recent months, you had called out Intelligrated picking up late in Q3 and also some of the HBT activity in Europe. I wonder if there was anything else that you would highlight that got better or worse over the past sort of two or three months as you moved through it, and also maybe how your own repositioning and CapEx spending plans may have changed when you're thinking about 2020, if at all?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. In terms of kind of some of the changes, I think we had a relatively slow start in Europe for month one and month two of the quarter, and we were a little bit concerned heading into September, but September actually was very, very robust, and economies like Germany, France, the UK, all did very, very well. So we had -- although we were worried but September was very, very robust, much better than sort of what the industrial GDP print would have you believe. So that was certainly better.

Kind of as we think about 2020, it's probably -- as Greg pointed, it'll probably be a tougher economic environment in 2020 than it is in 2019. But on the flip side of that, I don't see some fall off the cliff. I don't -- as I look at our backlog, as I look at our growth rates in terms of the long cycle businesses, the level of bookings we have for Defense and Space, the SPS pickup that we're expecting, reasonable comps for Aerospace although tougher, but maybe not double-digit, but still good growth, we're certainly not -- we're far from planning 2020 right now based on what we see as doom and gloom kind of a year, that's for sure. And if anything, hopefully there'll be some more positive outcomes. It looks like Brexit may reach a positive conclusion based on the news we're hearing this morning. Hopefully, there'll be more of that positive news to go here in the Q4.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. And as it relates to repositioning, I think we're -- as we go into 2020, we're going to have ample capacity to continue driving our reposition portfolio and pipeline as we have this year as well. So I expect that to continue to be a big part of our productivity playbook for 2020 also.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thanks. And then just following up maybe on SPS specifically in that context, you're now in the third quarter of your organic sales decline in that business. When we're thinking about the longevity of this downturn, should we assume a classic sort of short cycle duration of maybe five quarters of sales decline there and then a recovery post that? And allied to that, maybe just give us an update on how comfortable you feel with the market share in productivity products in particular?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I think as we've stated in the last quarter, I think productivity products is the business where we're focused on some improved commercial activity. We saw some good signs of that in Q3. And if you look at the margin profile -- incremental margin profile from Q2 to Q3, it was better. The team has adjusted their cost structure to the market reality or their revenue base. But yeah, I think we're trending in the right direction. So we do expect productivity products to return to growth in 2020. That's very much our expectation. Based on what I'm seeing today, I don't see anything which would prevent us from doing that. So -- I can't tell you whether it's exactly five quarters or three or four, but we expect growth in 2020 is kind of the short story.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thank you very much.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

We will take our next question from John Walsh with Credit Suisse. Please go ahead.

Q - John Walsh {BIO 20618716 <GO>}

Hi, good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - John Walsh {BIO 20618716 <GO>}

Just I guess a question around price and maybe also a little bit discussion around the price-cost equation. It looks like at least per the Q, price decelerated a touch in Q3, but obviously the very strong margin performance, I would assume, you're pretty green on price-cost, but can you maybe talk a little bit about that dynamic and how that's playing out in the next year as we're kind of still seeing some input deflation?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, we've continued to have a strong cadence around our price across the Company. So as we head into next year, I'm not expecting that we're going to hit a wall and not be able to continue to get price in the marketplace. And as you said, the cost -- as markets are slowing down, we're also doubling down on our procurement team in terms of driving our material cost deflation program as well. So we're going to keep pushing hard on both of those levers and expect that to be a net positive for us as we go into 2020.

Q - John Walsh {BIO 20618716 <GO>}

Got you. And then maybe just on highlighting the balance sheet capacity, anything to call out there as we look into next year, if there might be anything to do on the deal front? Obviously, you announced some small things in the release today, but how should we think about the use and the deployment of that next year?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. So first of all, we continue to be very active with our M&A pipeline, and there is a lot of things going on today as we speak, particularly given everything that's happening in the marketplace, and we hope that that will actually have a benefit as we go forward in terms of asset prices possibly coming down and making some things a bit more attractive. As you saw with our stock purchase program, we continue to do that pretty aggressively. And as we go into next year, I think we'll continue to use that as a lever for us. It's been very successful here. And I think, barring any large deals, I think we're going to continue to be targeting to take out at least a percent of our share count on a year-on-year basis. So both of those are going to be consistently deployed in terms of our expectations.

We did, as Darius mentioned, refinance some of our debt. We've got some debt coming due in October, so we refinanced that in the third quarter. So we still retain a very, very strong balance sheet with a lot of access to capital. And with our strong cash flow and our repatriation program, I think we've got a lot of ammunition for us to go ahead and use as we head into next year.

Q - John Walsh {BIO 20618716 <GO>}

Great. Appreciate the color.

Operator

And that does conclude 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 or closing remarks.

A - Darius Adamczyk {BIO 18702500 <GO>}

I want to thank our shareowners for continued support of Honeywell. We have delivered strong results each quarter this year and have continued to make great progress on our initiatives and delivered on our commitments. We are well positioned in attractive end-markets with multiple levers for value creation and operational excellence in place. We are focused on continuing to outperform for our shareowners, our customers and our employees. Looking forward to sharing our results as well as our 2020 outlook during our fourth quarter earnings call in late January. Thank you for listening.

Operator

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