Q2 2020 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Honeywell's Second 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 is being recorded. I would now like to turn -- introduce your host for today's conference, Mark Bendza, Vice President of Investor Relations.

Mark Bendza {BIO 21178179 <GO>}

Thank you, Lauren. Good morning, and welcome to Honeywell's second quarter 2020 earnings conference call. On the call with me today are Chairman and CEO, Darius Adamczyk; and Senior Vice President and Chief Financial Officer, Greg Lewis. This call and webcast, including any non-GAAP reconciliations, are available on our website at www.honeywell.com/investor.

Note that elements of this presentation contain forward-looking statements that are based on our best view of the world and of our businesses as we see them today. Those elements can change based on many factors, including changing economic and business conditions, and we ask that you interpret them in that light. Unless otherwise noted, the cost action plans described herein are not final. They may be modified or even abandoned at any time. No final decision will be taken with respect to such plans without prior satisfaction of any applicable requirements with respect to informing, consulting or negotiating with employees or the representatives. We identify the principal risks and uncertainties that may affect our performance in our annual report on Form 10-K and other SEC filings.

This morning we will review our financial results for the second quarter of 2020 and share our views on the third quarter of 2020. As always we'll leave time for your questions at the end.

With that, I'll turn the call over to Chairman and CEO, Darius Adamczyk.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Mark, and good morning, everyone. Let's begin on Slide 2. The second quarter was one of the most challenging quarters Honeywell has ever faced. The widespread repercussions of the COVID-19 pandemic and oil price volatile that impacted many of our businesses and end-markets. There are a number of factors beyond our control in current environment. We are laser-focused on the drivers of value that we can control. In the second quarter, we made numerous investments in newly emerging growth opportunities, we aggressively managed cost to protect margins and we generated very strong cash flow.

We delivered adjusted EPS of $1.26 in the quarter on sales that were down 18% organically consistent with the greater than 15% organic sales decline we signaled in May. Our Phase 1 cost plans delivered approximately $500 million of year-on-year benefits in the second quarter and we completed planning for a Phase II plan. These actions help us protect margins limiting our detrimental margins in the quarter to only 33%. In fact, we're actually able to expand segment margin in two of our four segments. Despite the challenging macroeconomic conditions, we generated $1.3 billion of free cash flow, driven by cost actions and customer collections resulting in adjusted free cash flow conversion of 140%.

We prudently deployed approximately $900 million of cash, primarily to dividends and CapEx investments. We committed approximately $250 million of incremental growth capital expenditures compared to our previous allocated budget for new projects to accelerate our investments in Safety products Intelligrated and other growth opportunities. These are high return investments expected to generate triple-digit IRRs.

Let's turn to Slide 3 to discuss the work we've done to pivot our business given the current environment and emerging customer needs. I am proud of the quick mobilization by employees throughout the company to rapidly innovate and provide solutions for both urgent and long-term customer needs. To address the urgent need for PPE, we are significantly growing our personal protective equipment business. We expanded face Masks productions and specifically our N95 anti-COVID mask production in Arizona, Rhode Island, The United Kingdom, India, The UAE and China. In the UK, we created a new manufacturing line capable of producing a significant amount of masks at our new house site in Scotland, which will assist the UK government's response to COVID-19 pandemic as well as service the European -- serve the European region.

In addition to our expansion of United States, India and China capacity, we have added capacity in the UAE, where we've partnered Strata Manufacturing, a subsidiary of Abu Dhabi state fund Mubadala Investment Company to produce N95 masks. Beyond masks and other PP&E, we're innovating to provide creative solutions for new areas of customer demand.

We recently announced our partnership with SAP to create a joint cloud-based solution to improve building performance based on Honeywell Forge in the SAP cloud platform. Building owners often need to pull data from this spread sources that are not normalized, making it extremely difficult to determine the true efficiency and utilization of their portfolios. The Honeywell Forge and SAP Cloud for real estate solution will streamline and combine operational and business data enabling customers to benefit from building performance optimization, including reduced carbon footprint and lower energy cost as well as improved tenant experience. This will be especially useful as buildings come back online in the midst of the COVID-19 pandemic and economic crisis. As building owners are expected to focus on key performance indicators tied to enhanced occupant safety and reduced operating costs. We have also launched an integrated set of healthy building solutions to help building owners improve the health of their building environments, operate more cleanly and safely, comply social distancing policies and help reassure occupancy that is safe to return to the workplace.

We are partnering with pharmaceutical and biotech customers in our Aclar healthcare packaging business to develop innovative packaging solutions for future COVID-19 therapies and vaccines. We have launched new bottles and vials called Aclar Edge that enable ultra high moisture barrier without the limitations of glass. We've also launched Honeywell ThermoRebellion temperature monitoring solution, which can be rapidly deployed at the entry of our factory, airport, distribution center, stadium or other commercial buildings to quickly and efficiently identify whether personnel exhibit an elevated temperature using advanced, infrared imaging technology and Artificial Intelligence algorithms.

In Aerospace, we are helping to provide a safer and healthier travel experience when ultraviolet cabin cleaning system. The Honeywell UV Cabin System can treat an aircraft cabin in less than 10 minutes for just a few dollars per flight, for mid-sized to large airline fleets, significantly reducing certain viruses and bacteria on cabin surfaces. I am very proud of the part we are playing to keep people safe and healthy by providing new solutions for urgent customer needs. We remain committed to continuing Honeywell's long legacy of innovation. We're continuing to invest in our future in good times and bad.

We also recently formed new business units dedicated to advancing our position in growing industries for sustainable energy and unmanned aerial systems. Our new sustainable technology solutions business in PMT will develop and commercialize new technologies that will help meet the growing demand for solutions that accelerate the path to a low-carbon economy. This includes growth opportunities in the plastic circular economy, energy storage, gas decarbonization and renewable fuels. In Aerospace, our new Unmanned Aerial Systems has continued to introduce new, innovative products for this exciting market in recently conducted in-flight testing of sensors that will guide urban air mobility vehicles to land without pilot intervention. These are challenging times for all. We are rapidly addressing our end-market and customer needs through innovation and mobilization of resources across the organization.

Finally, I'd like to make a few comments about our commitment diversity, inclusion and equality. Let me be clear, we will never tolerate racism at Honeywell. Fully embracing the principles of diversity, inclusion and equality and treating all employees at the utmost respect are our requirements for working here. In addition, we are committed to the following actions. We will continue to evolve our community relations programs and partnerships with key external organizations to promote diversity, equality and opportunity for all. We will intensify our focus on the recruiting, retention and development of women, veterans and minority groups. And we will continue to rigorously enforce our code of business conduct, which makes it explicit that there is zero tolerance specifically for racial discrimination. We recognize that these steps are starting point, not an end, and we're committed to continuing to make progress.

Now let me turn it over to Greg on Slide 4 to discuss our second quarter results in more detail as well as to provide our views on the third quarter.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius, and good morning, everyone. As we highlighted in our May call, the second quarter presented significant challenges. However, we effectively managed with a strong operational execution that our stakeholders have come to expect of us. For the second quarter, sales declined by 18% organically as the effects of the pandemic spread across the globe. Substantially lower sales volumes in our most challenged end-markets in Aerospace and PMT drove 280 basis points of segment margin contraction, while we delivered strong sales and orders growth in both our warehouse automation and PPE businesses. Our Phase 1 cost actions delivered approximately $500 million of year-on-year benefit in the quarter, which brought us to approximately $700 million of savings in the first half. We will discuss that later on in the presentation.

We delivered adjusted earnings per share of $1.26, down 40% year-over-year as we funded over $250 million of repositioning in the quarter to drive cost savings in 2020 and into 2021. As we previewed in May, repositioning was significantly higher than the second quarter of last year, driving a $0.19 headwind below the line. A higher adjusted effective tax rate resulted in a $0.06 EPS headwind compared to last year, partially offset by $0.04 of EPS benefit due to lower share count. This quarter EPS is adjusted to exclude the favorable resolution of a foreign tax matter related to our spin-off transactions in 2018. So on a GAAP basis, our second quarter earnings per share is $1.53. You will find a bridge of our EPS in the appendix of this presentation.

We generated $1.3 billion of free cash flow, driven by strong customer collections, despite a difficult operating environment and our adjusted free cash flow conversion was 140%, up 40 points year-over-year. In terms of capital deployment, we paid out $650 million in dividends. We also invested over $225 million in capital expenditures in the quarter, up

$56 million from the prior year. Our CapEx in the second quarter included the first tranches of investments that we are making to produce N95 masks to support the coronavirus relief efforts.

Overall, this was a very challenging quarter, but we continue to execute managing costs and our cash flow with the discipline and rigor you can expect from Honeywell. Now let's turn to Slide 5, and we can discuss our segment results.

Starting with Aerospace, sales were down 27% on an organic basis as the steep reduction in flight hours lowered commercial aftermarket demand and a slowdown in original equipment build rates in addition to the 737 MAX impact in air-transport impacted Commercial OE more broadly. Our air-transport aftermarket businesses were down 56% organically and our business aviation aftermarket business was down 50% organically in the quarter. The declines in commercial aerospace were partially offset by continued demand for US government programs, including the F-35, F-15 and the Orion space program, driving 7% organic growth in the Defense and Space business. For the quarter, the Defense and Space backlog finished up double digits, giving us confidence. We'll continue to deliver growth in that business throughout the second half of the year. Aerospace segment margins contracted 510 basis points, driven by lower commercial sales volume and business mix, partially offset by cost actions to improve productivity.

In Honeywell Building Technologies, sales were down 17% organically, primarily driven by deferrals of product purchases and security, building management systems in fire and softness in-building solutions due to delays in the projects and energy businesses, some of which is a result of site access constraints due to shut downs, particularly in India and the Middle East. Organic sales improved sequentially as the quarter progressed for the short-cycle products businesses. HBT segment margin expanded 50 basis points in the second quarter, driven by commercial excellence and cost actions to improve productivity, which offset the impact of lower sales volumes. In Performance Materials and Technologies, sales were down 17% on an organic basis. Process Solutions sales were down 13% organically, driven by volume declines in products, including thermal solutions, smart energy and field instruments.

In UOP sales were down 25% organically, driven by declines in gas processing, lower licensing and lower catalyst shipments due to weakness in the Oil and Gas end-markets. As expected, we saw new orders declined significantly in the second half -- in the second quarter as COVID-19 in the oil price volatility led to lower bookings in HPS and UOP. However, we have not seen any significant project cancellations to date.

Organic sales in Advanced Materials were down 18%, driven by lower automotive refrigerant volumes due to automotive plant closures, offsetting double-digit growth in packaging and composites and electronic materials. Flooring product sales into the automotive end-market improved sequentially by month throughout the quarter as automotive plants began to reopen. PMT segment margins contracted 460 basis points in the second quarter, driven by the impact of lower sales volumes partially offset by cost actions to improve productivity.

Finally in Safety and Productivity Solutions, sales were up 1% organically, driven by more than 20% growth in Intelligrated and over 100% growth in the respiratory personal protective equipment space, particularly -- partially offset by weakness in sensing and IoT, portable gas sensing and productivity products. Orders in SPS were up approximately 90% in the second quarter led by record high bookings of $1.2 billion in Intelligrated, up 300% year-over-year; and over $650 million of bookings in personal protective equipment positioning SPS well for the second half of the year and into 2021. SPS segment margin expanded 150 basis points in the quarter, driven by productivity, including cost actions, net of inflation and commercial excellence. So overall, we finished a challenging quarter with significant top-line impact from the COVID-19 pandemic. However, we grew in several businesses, including Defense, Intelligrated and PP&E, and due to prudent cost management and commercial excellence, we were able to limit detrimental margins to 32% overall and expand margins in HBT and SPS.

Now let's turn to Slide 6 to discuss our cost management actions in more detail. We previously announced our Phase 1 cost reduction efforts, which we rapidly started implementing in the first quarter. This included a curtailment of discretionary expenses, cancellation of 2020 merit increases across the enterprise, reduced Executives and Board pay, reduced work schedules and a first phase of targeted permanent census reduction. During the quarter, we completed preparation of the second phase of cost actions to expand permanent census reductions, which we also began executing in June. The result is that we reduced fixed cost by approximately $700 million year-over-year in the first half, which is pushing us toward the high end of our original Phase 1 target range of $1.1 billion to $1.3 billion, the Phase II actions to deliver approximately $200 million of 2020 benefit. So the combination of Phase 1 and Phase 2 is expected to reduce costs by $1.4 billion to $1.6 billion in 2020. Our aggressive deployment of repositioning funds, $250 million in the quarter and $325 million in the first half, is serving us well. I do expect our fixed cost to be pressured sequentially in the third quarter as the permanent reductions begin to replace the benefits of the more temporary actions.

Now let's turn to Slide 7 and discuss our balance sheet and liquidity. We exited the first quarter in an incredibly strong position on the balance sheet and we took additional actions during the quarter to further bolster our financial flexibility. In the second quarter, we issued $3 billion in long-term debt instruments with maturities in 2025, 2030 and 2050, replacing a portion of the term-loan financing, which we reduced commensurately from $6 billion to $3 billion. So as to access -- we fully drew down on the remaining term loan so as to access the liquidity of $6 billion that we had highlighted previously. As a result, we ended the quarter with $15.1 billion of cash and short-term investments on the balance sheet and a net debt to EBITDA ratio below one. The $15 billion of cash and short-term investments compares to only $3.5 billion, our commercial paper an $800 million of long-term debt coming due within the next year.

As you recall, we substantially completed our 2020 share repurchase commitment in the first quarter and we were focused on liquidity preservation in the second quarter. We deployed $650 million to dividends and approximately $225 million to CapEx in the quarter. While being prudent on CapEx overall, we will continue to fund growth investments in the second half and we expect full-year CapEx to be approximately $900 million, including the additional growth capital Darius mentioned earlier.

We are committed to holding share count approximately flat to the second quarter for the remainder of the year at a minimum. We are open to deploying capital to share repurchases and M&A investments in the second half of the year, if attractive opportunities become available. On the topic of M&A, we are pleased to welcome Emily McNeil to Honeywell this quarter as our new Senior Vice President, Corporate Development and Global Head of M&A, who will be responsible for maintaining and building our robust pipeline of acquisition opportunities that, are strategically well-positioned to accelerate Honeywell's growth. We are very excited to have Emily on-board.

Now let's turn to Slide 8 to discuss our segment outlook for the quarter. The next few quarters will continue to be unpredictable and our visibility has limits under the current circumstances. Accordingly, we are continuing the suspension of full-year guidance until the economic environment stabilizes and we can once again give reliable and comprehensive forecasts. We believe it's important that we provide a level of precision that is commensurate with our ability to forecast in the current environment and therefore we will provide the same set of inputs that we provided in May. We are closely watching several key drivers of uncertainty in the third quarter. First and foremost, the severity of increasing COVID infections and the potential for additional lockdowns is still very fluid and could have significant impacts on the macroeconomic environment. The support provided by the fiscal stimulus programs deployed in the second quarter by governments globally will diminish in the third quarter, an additional stimulus is uncertain, particularly in the US, which complicates the visibility to true economic stability. The geopolitical environment and trade stability also continues to be a wildcard.

From an end-market perspective, the dynamics in the air travel industry, including flight hours, retirements and used serviceable materials as well as oil price volatility and CapEx and OpEx budgets, which affect our PMP business, are not stable yet at this point. With that said, the impact on customer solvency and agent receivables remains a question mark as well and a potential future risks that we're monitoring. Together, these drivers are difficult to predict and set a stage for challenging quarters ahead. So as best we see it, starting with Aerospace, we expect global flight hours to remain far below pre-COVID-19 levels, which will significantly impact our commercial aftermarket in business. We do expect air-transport flight hours to begin recovering from second quarter lows. The sequential improvements in commercial aftermarket sales due to flight hour improvements may be offset by the impact of used serviceable material and rotation of fleets. Our commercial original equipment business will continue to be impacted by lower air-transport OEM build rates and lower business jet demand due to the economic slowdown. We are anticipating that government defense budgets will remain intact and we expect continued growth in defense and space. In combination, we expect Aerospace sales once again to be down more than 25% compared to the third quarter of 2019.

Moving onto PMT, a combination of volatility in oil prices coupled with the uncertainty stemming from the global pandemic has continued to put pressure on our businesses linked to oil and gas. We've seen a continued reduction in customer CapEx and OpEx budgets as well as project delays and site access constraints, which are impacting the engineering and licensing business in UOP and orders and projects in automation solutions in HPS.

We also expect ongoing headwinds for our product businesses and process Solutions causing decline in field services -- in field devices and thermal solutions. As we've previously discussed, we entered 2020 with a healthy backlog of global mega projects in HPS, which was still up over 80% year-over-year for the second quarter. And we expect these projects to continue to convert over the next few quarters. Access to customer sites will likely remain inconsistent, especially in high-growth regions, including India and Middle East.

In UOP, we expect continued weakness in gas processing and lower catalyst shipments due to lower production in refining volumes. Additionally, we anticipate new projects will continue to push to the right and progress on current contracts may be delayed resulting in continued pressure on UOP licensing and engineering.

Within Advanced Materials, we expect that automotive refrigerant volumes will continue to recover as auto-OEM plants increased production and capacity levels. In Specialty Products, we expect strong demand for healthcare packaging and electronic materials. Altogether, we expect PMT sales to be down more than 10% compared to the third quarter of 2019, driven principally by the volatility in the oil and gas markets.

In HBT, while we do expect access to customer sites to improve in some regions in the third quarter, the current environment of non-residential projects in multiple verticals have paused and customers are deferring non-essential spending impacting the timing of long-cycle building solutions projects, and delaying purchases of security, building management in fire products. We expect these dynamics to continue in the third quarter, but to improve sequentially. In addition, Darius mentioned our new healthy building solutions and our partnership with SAP for buildings, which we see as emerging growth opportunities. We expect HBT sales to be down more than 10% compared to the third quarter of 2019.

And finally in SPS, the surge in e-commerce as governments enacts social distancing requirements has strengthened demand for our warehouse automation business and support continued conversion of our robust Intelligrated backlog. Our Intelligrated orders were up over 300% in the quarter to $1.2 billion, driven by major systems bookings and Intelligrated backlog remains very strong, up 140% year-over-year to $2.1 billion. So we expect this business to perform well through remainder of the year.

We are also continuing to see record level demand for respiratory masks and other personal protective equipment. PPE orders were up triple digits for the second consecutive quarter with strength in the respiratory, head, eye, face, gloves in clothing categories. Our personal protective equipment backlog is now also up triple digits and our total SPS backlog is at an all-time high. The macro conditions continue to put pressure on other SPS businesses, including sensing and IoT, gas sensing and productivity products where we expect to see declines in the third quarter. Overall, we expect sales in SPS to grow single digits compared to the third quarter of 2019, less than 7% overall, a very good result. So while there are signs of stabilization in the macro economy, key end-markets remain challenged and economic conditions fluid. We have both opportunities and challenges in the portfolio, but on balance, we expect sales for the company to be down again more than 15% versus the prior year. We expect between $125 million and

$175 million of additional repositioning charges in the third quarter to fund our cost programs. This increase in repositioning in the second and third quarters will drive higher repositioning cash outflows in the second half of the year, putting pressure on our free cash flow. Additional details for our tax rate, share count and below the line expenses are included in the appendix.

With that, I'd like to turn the call back to Darius.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Greg. Let's wrap up on Slide 9. As we expected, this quarter proved to be very difficult, but we effectively managed through the challenges with strong operational execution and cash generation. We remain cautious heading into the second half of the year as there are still many unknowns. However, our diversified portfolio and significant balance sheet strength will continue to provide resilience in these uncertain times. We acted quickly and responsibly to make structural changes to our cost base during the quarter. We funded over $250 million in repositioning and we identified significant additional actions to align our cost base, the current environment in 2020 and 2021. Despite the challenging times we are delivering growth in several parts of the portfolio, particularly in defense, Intelligrated and personal protective equipment. We're also investing in growth opportunities and working hard to provide innovative solutions for emerging customer needs. I am proud of everyone at Honeywell who is working hard to adapt and deliver this challenging environment. And I'm confident we will emerge from this crisis even stronger than ever.

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. Lauren, please open the line for Q&A.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) Thank you. And our first question is coming from Jeff Sprague with Vertical Research.

Q - Jeff Sprague {BIO 1494958 <GO>}

Thank you. Good morning, everyone.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Jeff.

Q - Jeff Sprague {BIO 1494958 <GO>}

Good morning. Two from me if I could. Very clear on the cost-out what you expect to deliver in 2020, Darius or Greg, though, given that some of the stuff is kind of in slight over the course of the year here. I just wonder if you could give us a little bit of feel of kind of what the carryover positive effects of this Phase 1 and Phase 2 would be as we look into next year.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, well, I think we sort of provide some guidance on that in the 60% to 70%. Because I think you have really three buckets of costs that we think about, right, which is purely temporarily and think about those as furloughs, which obviously are going to come back. The second bucket is what I call semi permanent. Those are some of the indirect cost base, which obviously are impacted, which they are not permanent in nature, but we think some of those are going to carry over into 2021, and then obviously permanent reductions. So the 60% to 70% is a pretty good guide around that includes primarily the permanent reductions and then some portion of the semi permanent. Because, obviously, on the indirect costs, we're not going to be as low as we were in 2020, but we're also not going to get back to 2019 level. So we kind of have -- think about 50-50 or something in that kind of a split that we approximate. That's sort of that our rough guide how to think about that. I don't know Greg, if you want?

A - Greg Lewis {BIO 20594853 <GO>}

No. That's right. And again at the midpoint of our 1 4 to 1 6, you can kind of use the 15 number extrapolate that 60% to 70% from there.

A - Darius Adamczyk {BIO 18702500 <GO>}

So I mean, I think the only, Jeff, the only unknown is -- it's sort of timing because the permanent wants to timing isn't perfectly predictable. And some of it may move sooner, some of it may move later. So I think timing element is, I would say somewhat unpredictable, but not sliding more than, let's say quarter.

Q - Jeff Sprague {BIO 1494958 <GO>}

Yeah.

A - Greg Lewis {BIO 20594853 <GO>}

And that will become much much clear 90 days from now as we get through the third quarter.

Q - Jeff Sprague {BIO 1494958 <GO>}

And second question, just -- again, trying to get a sense of what the future holds and I totally respect you don't want to kind of give really explicit guidance yet, but the framework here certainly helps. You gave us SPS orders. Could you give us orders for the other three segments in the quarter? So we have kind of a feel for what you're working with here as we look forward?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, if you think about HBT and PMT, they were down in the teens, is the way to think about. Obviously in Aero, they were down mid double-digits. I mean they were significantly down. But I think there is -- so that's sort of, hopefully it gives you some color. But I think there is a couple of really important things to remember. Our total Honeywell backlog actually is up 3%. And even the PMT backlog is up 2%. So obviously, orders actually kind of came in more or less where we expected them to do, but overall, the backlog position improved, which I think was a pretty good sign. So all-in-all, not as bad as we anticipated.

Q - Jeff Sprague {BIO 1494958 <GO>}

Great. Thanks. I'll pass it.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Jeff.

Operator

Our next question comes from Steve Tusa with JPMorgan.

Q - Steve Tusa {BIO 4278663 <GO>}

Hey guys, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Steve.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Steve Tusa {BIO 4278663 <GO>}

Just on Aerospace, when you look out to the kind of third quarter, just profile-wise, what do you expect between OE and aftermarket? Will -- while one be picking up a little bit, the other decelerating. I mean, what is the -- just on a year-over-year basis, how do we think about kind of better moving parts for those two guys on the commercial side?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Yeah. Maybe I'll start. I mean, just to give you a little bit of a -- so let's kind of divide it up into the three segments. Let's start with Defense and Space. We expect that to grow again. So that's been the strength for our business in Aerospace in Q2. We expect that to continue in Q3. When you think about OE, we actually expect that to be flat to down versus Q2 for a couple of reasons, number one, obviously, we had some carryover impact from Q1 in terms of shipments. Number two is in some segments, in some of our OEs that we don't see the robust production rates exhibited in Q3. So we don't see that improving.

In terms of business aviation aftermarket, we expect that to be slightly better than it was in Q2. And then finally, in ATR, that one is that toughest to call. And I'll tell you why, because you can't just look at flight hours, so all the flight hours will be better. And if you think about our low to mid-70s reduction year-over-year in Q2, we kind of estimated Q3 to be something in the -- call it 50s or something of that nature, which actually may be a little bit aggressive. But the thing to think about here is that it's not, there is a lead and a lag impact. And the second component, which is somewhat unknown, although we haven't seen it as you know, is there going to be cannibalization from the parked aircraft, so that one for us is really tough to call. And -- so we're going to have to just kind of see how the quarter evolves. And that's why it's hard for us to give precise guidance because these things are unknowns. We had airlines adding more flights in July and August. Now they're pulled back their schedules a bit in August. So there is a lot of moving pieces here. And I think the ATR aftermarket component is the toughest one to call.

Q - Steve Tusa {BIO 4278663 <GO>}

And sorry -- when you talk about kind of that USM, the used parts dynamic, your business is electronics, there is some software, obviously, you have some mechanical components. But I mean, outside of -- putting business yet aside and just looking at the large commercial stuff, I mean, how much of your business is even kind of exposed to that? It wouldn't seem to me to be a material mover made by a few hundred basis points, but not something that can really swing things around in a major way. Correct?

A - Darius Adamczyk {BIO 18702500 <GO>}

No. It's not. No. I don't think it's going to be dramatic. But I think it would be wrong to just say, well, to tie the aftermarket performance purely to the quarter-over-quarter flight hours because we do think, obviously, flight hours are going to be better in Q3 versus Q2. But I don't think it's necessarily just a pure correlation, right? We think it's going to be a modest -- very modest impact. And keep in mind that we also had some orders back all the way from Q1 that we still filled in Q2. So we had a little bit of a lead lag impact. So --

Q - Steve Tusa {BIO 4278663 <GO>}

Right.

A - Darius Adamczyk {BIO 18702500 <GO>}

I don't bring something dramatic because the natural assumption would be, okay, well, this is going to be a lot better in Q3. The fact is, we're really not sure because we need to kind of see how things evolve in some of the factors I talked about.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I don't think airline behaviors are necessarily solidified yet.

Q - Steve Tusa {BIO 4278663 <GO>}

Yeah. One last one. Just getting at the cost discussion in a bit of a different way. Probably in the worst quarter hopefully that you ever see as CEO, you guys are putting up a headline decremental of 33%. Would the goal be to kind of on the way up leverage at when things normalize kind of leverage at that -- a number that's comfortably above that -- with that kind of be the high level goal?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Yeah. I mean, I think, look, I mean 33% given the sudden kind of stop in our business, I'd be actually view it's pretty good given that what do we have aerospace exposure and oil and gas exposure. So I think that that's going to be respectable performance.

A - Greg Lewis {BIO 20594853 <GO>}

Which by the way, was substantially different than '08 and '09. The aftermarket up here is multiples of what it was in the '08 and '09 recession, which really puts a lot of pressure on those economics. But our plan here though is to show improvement from this number going forward. I don't think it's going to be dramatically better in Q3, but we do expect modest improvement in some of the -- in that 33. So that's sort of how we're thinking about it.

Q - Steve Tusa {BIO 4278663 <GO>}

Right. Okay. Thanks a lot.

A - Greg Lewis {BIO 20594853 <GO>}

Thank you.

Operator

Our next question comes from Scott Davis with Melius Research.

Q - Scott Davis {BIO 2393277 <GO>}

Hey, good morning, guys.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Scott.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Scott.

Q - Scott Davis {BIO 2393277 <GO>}

I guess there was a lot of fanfare around this SAP Cloud Forge thing. And if you can backup a little bit, I mean, can you help us size it a little bit or think about what -- how do you get paid for it? What's the opportunity as there may be some early signs around take rate? Just some color about really what the upside is in that business -- in that alliance?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think, it's really, really exciting, because -- I think, Honeywell and SAP have what I call complementary growth strategies. So this alliance -- we started out in buildings, but I think it's -- I think we have much broader opportunities. And just to give you a perspective, clearly the connected buildings part was really a highlight of our Q2 in terms of our Connected Enterprise. And just to give you the level of growth, we saw 26% growth in that segment, in Q2. So in this environment, and given -- I think, that's tremendous, so obviously we're on to something. In terms of some of the growth drivers, I mean, obviously, it's energy savings, it's security, it's a coherent interface so that building owners or maintainers can understand of what's going on. It's building occupancy optimization. Now with the launch of healthy business buildings, it's also social-distancing, it's wearing PP&E temperature monitoring, clean air quality, all these elements are part of that connected buildings offering, which we're now augment an even more with a broader focus on kind of creating a healthy environment for the office work. And the other -- maybe one last thing I'd want to add on this Scott is that we're also -- in our HBT business, we're also reorganizing to be much more end-market vertical oriented. So for example, we're going to go to the market as set of solutions for healthcare or hospitals, for stadiums, for airports, for office buildings, for data centers. So that's -- it's an evolution in our HBT strategy. And I think we're going to -- it's going to be that much more effective because we're going to be that much closer and much more intimate with those customers and their needs.

Q - Scott Davis {BIO 2393277 <GO>}

Makes sense. And I'll follow-up with you on the sizing. And it doesn't sound like you want to answer that part of the questions.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, well, I think, I'm not ducking the question because, frankly, we're creating the market. Whenever you create a market, it's hard to guess at the sizing. But just our own -- our own installed base is fast. We think that, over time, this could be a $1 billion business, just to get sort of our -- that sort of our scope, and we don't think that that's like decades away. So we have big hopes and double-digit growth rates are in expectations. And the good news about that is even in an environment like we had in Q2, which was an all-time worst for Honeywell, I mean, literally was probably the worst quarter hopefully I'll ever see, 26% growth gives you the kind of traction we're gaining in this segment.

Q - Scott Davis {BIO 2393277 <GO>}

Now you answered the question. So just a quick follow-up that the order growth in Intelligrated is pretty dramatic, and not a total surprise, but the big numbers. Can you actually satisfy that demand without incurring some extraordinarily kind of costs around maybe over time or --

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, I mean, that's -- I mean you heard Greg discussed this. I mean we are aggressively investing in our CapEx.

A - Greg Lewis {BIO 20594853 <GO>}

And people.

A - Darius Adamczyk {BIO 18702500 <GO>}

And people. So we're cutting in some areas, because we have to. But we're actually adding a lot of people and others, so $250 million of incremental CapEx that we never had in our budgets. And Scott, I think this is an important data point. I just want to give you and I think it's one to remember. When we bought Intelligrated was roughly $800 million to $900 million business per year. We booked $1.2 billion this past quarter. It gives you the kind of growth profile that we're seeing in that business.

Q - Scott Davis {BIO 2393277 <GO>}

For that terrible acquisition, congrats Darius. And good luck guys. I wish you the best rest of the year.

Operator

Our next question comes from Julian Mitchell with Barclays.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Julian.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi. Maybe just the first question around the free cash flow. So you had good conversion in Q2 bringing the first half was running in the 80s percent wise on conversion, you talked about some restructuring going, perhaps in the second half, Greg. So maybe just help us understand where you are seeing free cash flow conversion, perhaps for the year as a whole? And any other major swing factors in the second half that we should think about?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. So we're -- I'm not going to give you a conversion rate because, again, that's also is dependent on where things come out on the bottom line, which as we discussed. We're not going to guide here today. But as it relates to some of the pressure points, I mean, obviously, we harvested the receivables with our -- in Q2, which was good and we also were able to bring down some of our past due receivables. We worked very closely with a lot of our customers, particularly in the airline space to make sure that we are managing some risks around that. So pleased about the results there. But going forward, again, as I mentioned, the solvency, our risks, I think are in front of us, not behind us. And so that may create some challenges in the back half of the year if we start seeing additional bankruptcies. And again, a lot of that depends on behavior travel, any stimulus that may come out in the back half of the year and so forth.

The other thing is -- I did mention repositioning, and we booked over $300 million of repositioning. A lot of those are very fast payback less than, think about less than a year kind of paybacks and a lot of those are very heavy for a severance perspective. So we spent about $170 million of cash repositioning in the first half of the year. I expect that to be probably double that number in the back half of the year roundabout. So that's going to be a pressure point for us as well. And then again, we are investing in capital. So this year, if you think about back to when we originally did our outlook call, early in the year for 2020, we had about $900 million capital budget. And even with this decline, we're still at about a $900 million capital budget for the year that's because we did do some smart things to reduce CapEx in places where things were slowing, but with all the growth programs that we're adding, and as Darius mentioned, these things have triple-digit IRR. So we're going to do that.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah.

A - Greg Lewis {BIO 20594853 <GO>}

So our total CapEx for the year is going to be $900 million even this year and we only spent about $370 million in the first half, so that's going to ramp up in half two. And then if you remember, we also did talk about at the very first guidance call early in the year that we were going to have an extra payroll cycle in 2020, and that's going to happen in 4Q. So that was like $150 million, $170 million. So I think this would be our best cash quarter of the year. And again, we're happy with the work that we've done particularly around receivables management. We have the work to do on inventory now. And so those would be the main things that I would highlight. CapEx, repositioning cash that pay cycle, dynamic is going to play out in 4Q, and we got to go to work our inventory management.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. And I think from an investment perspective, I would just add that we're nearly doubling our growth CapEx from our original plans, because I -- to be honest, I haven't seen IRRs ever that were triple-digit, and it's by far the best way we could put our capital to work. Some of these high return CapEx projects and they are terrific. And we're not afraid to -- I mean, if need to be, we may even be targeting more investments for growth in the second half.

Q - Julian Mitchell {BIO 21229700 <GO>}

Thanks, Darius. So, yes, I think, your point just now underscores that you're thinking clearly about the recovery and how to position Honeywell for that in terms of organic investment. I guess, following up on that, how should we think about capital deployment from here? You're making that push on the organic side. Are you looking out at the M&A landscape and your balance sheet and thinking this is the right time to go ahead and start to upscale the portfolio through acquisitions as you try and positioning yourself for the next upturn? Or is it, we probably should expect a balance of M&A and buyback for the next 6 months or 12 months?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean, I think we're always going to see some level. We hope to see some balance, right? I mean, I think that's kind of been going to be the formula going forward. I certainly will tell you that the M&A function is open for business. I mean I think it was prudent for us to take a little bit of a pause in Q2 just to see how the world evolves, how things are going to change and so on. But hey you kind of saw the kind of working capital performance we had. We've further secured the balance sheet and protected even more. And I think you would agree that the balance sheet is very strong and well protected, well funded. So in short, we are very much open for business both from an M&A perspective as well as potential buyback perspective. And if we already made a commitment that we're going to at least keep share count flat from here, which is new news. And we're going to take a look at what opportunities are out there in the second half. I mean, the M&A environment, it's just a little bit slower just because everybody is focused on battling the crisis, but we think that that may open up a little bit more here in the second half, and we hope to be active.

Q - Julian Mitchell {BIO 21229700 <GO>}

Great. Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thank you.

Operator

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

Q - Andrew Obin {BIO 6337802 <GO>}

Yes, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Andrew.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good Morning.

Q - Andrew Obin {BIO 6337802 <GO>}

Just a question on Defense and Space, which was a highlight in Aero. How much visibility do you have on DoD being able to accelerate payments on programs? Basically what happens in 2021 is Defense and Space -- I'm not asking about the end-market outlook, but it shows there is a very sort of basic cash outlay dynamics by the Department of Defense to you guys on existing programs. So does that mean that 2021 has to be down? Or is there a chance to 2021 can be flat? Specifically --

A - Darius Adamczyk {BIO 18702500 <GO>}

At this stage we're -- yeah, at this stage we're not expecting a decline in 2021 at this point. We feel like the defense budget is, as you highlighted, is still fairly robust. So not expecting material downshift from '20 to '21.

Q - Andrew Obin {BIO 6337802 <GO>}

And then just a follow-up question. You highlighted masks and just, I guess, two-pronged questions, I think, right. I mean it was great strategic move on your part, on respiratory protections. So a, do you have plans to continue to increase capacity on masks? And part two of the question, does it open sort of strategic opportunities for you down the line in safety to build on this new strength?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Yeah. Andrew, I'd say, well, first of all, it's more than masks, right. So this isn't just masks -- masks is a part of it, but its other PP&E. It's also we're expanding capacity in our sensing business for pressure sensors, which go into a lot of the medical equipment that our hospitals desperately need. So I would say that our capacity expansion is much more broad based and it's not just mask-oriented. But certainly, as we look longer-term, this sort of opens up new opportunities for us, I'd say maybe less -- it's less about masks, but a little bit more about steering the business towards serving the medical segment. That's kind of how I would think about it.

Q - Andrew Obin {BIO 6337802 <GO>}

And any plans to add additional capacity, specifically on N95 in the second half on top of what you would kind of like --

A - Darius Adamczyk {BIO 18702500 <GO>}

I think we've been doing that gradually. And as we see the demand, we're certainly not going to be afraid to add even more capacity. So as we -- the demand is still very robust, and I think it's very possible that we could be adding even more capacity here in the second half of the year.

Q - Andrew Obin {BIO 6337802 <GO>}

Thank you very much.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question comes from Joe Ritchie with Goldman Sachs.

Q - Joe Ritchie {BIO 16351356 <GO>}

Thanks. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good Morning, Joe.

Q - Joe Ritchie {BIO 16351356 <GO>}

Hey, Darius, maybe let's just start on UOP and HPS. I know when we kind of talked intra-quarter, it seemed like you were a little bit more sanguine about UOP kind of recovering quicker just given miles driven should be fairly more resilient this cycle versus prior cycles. I'm just curious whether that's changed at all? And what you're seeing along those lines?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean, I think the segment for UOP, that was the most challenged is our gas processing segment, which obviously is closely tied to the unconventional gas production in -- primarily in the US, and as you know, that's very challenged. So we saw some pretty big drop off. But even before this crisis hit, I mean, the mix in UOP can vary substantially from quarter-to-quarter or even year-to-year. And we always knew we had a very heavy equipment mix in the business in the Q2 and Q3 of this year. And in even if this recession hadn't hit, we always had a challenging -- now you -- mix going into it. Now you combine that with kind of a push out of a lot of the catalyst refills, push out of projects, obviously, the refining capacity wasn't as -- or demand wasn't as robust as any of us would hope here in Q2. Do combine all these factors and, UOP, obviously, was a bit more challenged in some of our other businesses. HPS performed, I think, admirably, in the quarter. I mean some of the products businesses were a little bit more challenged than the systems businesses. So overall, pretty much aligned with our expectations. And in terms of Advanced Materials, that one was heavily impacted by the shutdowns in auto manufacturing and our supply of sources, which we expect to see some level of recovery here in the second half of the year.

Q - Joe Ritchie {BIO 16351356 <GO>}

Okay. Fair enough. And then maybe just one follow-on question, just going back to the cost-out commentary, and Greg, maybe this question for you. You made a comment about that just kind of fixed cost pressure in 3Q versus 2Q. And so how should we be thinking about like how much of the benefits are actually coming through in 3Q versus what came through in 2Q? And potentially maybe talk a little bit about how the temporary reversal, if there are temporary reversals would occur in 3Q was impacting that number?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. So that's exactly why I chose the words I did because some of those temporary actions, furloughs -- some of the other reductions and discretionary spend that may start picking up during the course of 3Q. And then as I mentioned, we're backfilling that with some of our fixed -- sorry, more permanent actions. But those are going to play out over the course of June, July, August, September. So the steepness of that backfill is probably going to be more weighted towards the fourth quarter than the third quarter. So we're doing our level best to try to hold our fixed costs flat. They may not be in Q3, but I would expect the one -- we talked about 1 4 to 1 6 as a range with 700 already achieved in the first half of the year. I would think the balance of that is going to be a little bit more weighted towards the fourth quarter than the third quarter.

Q - Joe Ritchie {BIO 16351356 <GO>}

Got it. So maybe like, I don't know like sequentially like kind of call $50 million in pressure in 3Q versus --

A - Greg Lewis {BIO 20594853 <GO>}

I'm not going to quote you specific numbers Joe.

A - Darius Adamczyk {BIO 18702500 <GO>}

It's just -- because we simply can't call the timing of that perfectly. I mean it's not, obviously, when temporary reactions are pretty easy to call, because you can sort of unilaterally implement. When you go -- when you shift basically -- we're doing in Q3 and Q4, we're shifting and substituting some of the temporary actions we've taken in Q2 for permanent. The timing of that can't be exactly perfectly called. And as Greg pointed out, I think it's going to be a little bit more weighted towards Q4 than Q3.

Q - Joe Ritchie {BIO 16351356 <GO>}

Okay. Fair enough. Thanks guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

We'll take our next question from Nigel Coe with Wolfe Research.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks. Good morning. And really appreciate you making this no drama Friday. So I want to go back to your comments around decrementals. And I appreciate the comment that you think you can generate better decremental margins into the back half of the year. And I'm wondering if that confidence extends to the Aerospace margins, I think they were 39% or thereabouts in 2Q. I'm recognizing mix is an important factor there. But do you think that you can maintain or you can improve on that performance and ever?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think the comment was more in total. I think Aero is the toughest to call because of the uncertainty around the mix that I talked about particularly in air transport aftermarket, which as you can imagine a very interesting and higher margin revenue stream.

A - Greg Lewis {BIO 20594853 <GO>}

And you could very easily see it being sequentially down.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. So I'm not -- I can't tell you that Aero is necessarily going to have better decrementals, at least in Q3, but we are cautiously optimistic that Honeywell in total will continue to drive better decremental margins as we move from Q3 and even more so into Q4. Provided, of course, all of this is provided, we don't have sort of a much broader and much more aggressive Phase II of COVID-19, which I guess is on depending who you listen to that I guess it's always possible in the fall. So that's kind of how we're thinking about our math for the rest of the year.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. Very, very clear. And then, again look just peeking into 2021 within Aerospace and thinking about business jets, at a very high level, how do you think the post-COVID world looks for the categories you play in, which is obviously the upper end of the markets? How does that look from your prospective, your approach in the post-COVID world? It seems to me like there could be some benefits, but I'd be curious how you think about that?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, look, I mean a couple of points. Number one is, I think that you saw the bottom in Q2. See a gradual slow improvement as we move into Q3, Q4 and then into 2021, we're going to continue to see improvement. I think the real discontinuity here where we could see a much more dramatic improvement, which is really going to be tied to a medical solution, which is probably a vaccine when it gets distributed because that the level of the leisure traveler is actually a little bit better than expected, people are traveling. But -- what we need really -- that second like to come in, which is the business traveler. And that part of it, we think it's going to happen after we get a much broader distribution of a vaccine, which, right now, it's anybody's guess when will happen, but I think the news overall is actually pretty good. And I don't think it's crazy to think that we may even have a certified vaccine before the end of the year, this year. And I don't know when -- we also have to think about the distribution timing and so on. So we're optimistic that certainly there is going to be a medical solution in the first half of next year, which obviously will stimulate a greater level of air travel.

Q - Nigel Coe {BIO 3818998 <GO>}

Great. Thank you very much.

A - Mark Bendza {BIO 21178179 <GO>}

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

Operator

Thank you. We'll take our next question from John Inch with Gordon Haskett.

Q - John Inch {BIO 1793553 <GO>}

Thank you. Good morning, everyone. Thanks for squeezing me in here. Hey, Darius and Greg, so if you look at your restructuring programs in the 60 to 70 of structural, how would you anticipate, say your pro forma headcount ending 2020? I just glanced the K, it looks like you started the year with 113,000 employees. Where would we expect that 100 to end up based on -- and I don't mean on a furlough basis, I'm trying to sort of think about the significance in terms of headcount based on your structural actions that you're taking in which you called out?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. Yeah, I think it's tough to call at this point. I'll tell you why, because although we obviously know roughly what we're having our restructuring plan. So we know what we're going to do there. What we don't know is the capacity additions, because all the work -- some of the reductions are taking place in places like Aerospace, to a lesser extent PMT and so on. But now we're adding hundreds, if not thousands of people in SPS. And we don't think we're done. I think that we're going to be making further investments in people, further investments in capacity. I think it's a little bit too early to call exactly what that our staffing may look like at year-end. And I hate to give you a number, which may prove to be inaccurate.

Q - John Inch {BIO 1793553 <GO>}

No. That's fine. The magnitude of the actions Darius, seem pretty substantial. So I'm just trying to sort of triangulate that. Could that mean return capacity -- you're taking out 5% of your headcount? Or how -- what else would you say about if that suppose -- it's kind of question?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean, I think it's -- in Aero, it's substantial, it's closer to double-digit. In some of the other businesses, we are adding headcount, so a little bit all over the place. I mean, I think we've tried to be protected as many jobs as we can because we frankly don't want to be doing a lot of job reductions. But I also have to be realistic and we have to be realistic that we don't think that this is a quarter or two phenomenon on Aerospace. And unfortunately the business is going to shrink for a little while. We do think. I'm not -- by the way, I'm not so pessimistic that I think Aero is going to be down till 2024, as I've heard some estimate. I actually think it's going to come back a bit faster than that, and it's aligned to a medical solution. But realistically, it's probably not going to get back to the 2019 levels until at least 2022 or maybe even a bit later. So we're sizing the business for that kind of a reduction.

Q - John Inch {BIO 1793553 <GO>}

Yeah. That makes sense. Just as a follow-up guys, this ultraviolet airplane cabin cleaning technology, is it applicable to or could you even sort of develop product for commercial building applications or even residential? And that would seem to be like a pretty big deal, if you could actually extrapolate that?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. We are working on exactly that type of a solution, which treats the air of ultraviolet light and, obviously, results in a much higher air quality than anything out there. So that is very much part of our thinking and part of our solution. So we're doing some studies around the timing required, exposure to UV light required. And that's very much part of our thinking.

Q - John Inch {BIO 1793553 <GO>}

Yeah. I know you get that on the New York City subway. The economy might actually come back. Great. Thanks very much. Appreciate it.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

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

A - Darius Adamczyk {BIO 18702500 <GO>}

I want to thank our share owners for their continued support of Honeywell. We are focused on continuing to perform for our shareowners, our customers and our employees in any environment. We're well positioned to manage through challenging times of our balanced portfolio, track record of execution and a strong balance sheet. I'm excited about the future of Honeywell despite the current challenges facing the global economy. We are capturing new growth opportunities by providing innovative solutions for new customer needs and our operational rigor will continue to serve us well. Thank you for listening. And please stay safe and healthy.

Operator

That does conclude today's conference. We thank you for your participation. You may now disconnect.
