Q2 2021 Earnings Call

Company Participants

- Darius Adamczyk, Chairman and Chief Executive Officer
- Greg Lewis, Senior Vice President and Chief Financial Officer
- Reena Vaidya, Director of Investor Relations

Other Participants

- Andrew Obin, Analyst
- Jeffrey Sprague, Analyst
- John Walsh, Analyst
- Joseph Ritchie, Analyst
- Joshua Pokrzywinski, Analyst
- Nicole DeBlase, Analyst
- Nigel Coe, Analyst
- Scott Davis, Analyst
- Sheila Kahyaoglu, Analyst
- Stephen Tusa, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Honeywell's Second Quarter Earnings Release. At this time all participants are in a listen-only mode, and the floor will be opened for your questions following the presentation. As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Reena Vaidya, Director of Investor Relations. Please go ahead, ma'am.

Reena Vaidya

Thank you, Jake. Good morning, and welcome to Honeywell's Second Quarter 2021 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. 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 2021, share our guidance for the third quarter and provide an update to our full year 2021 outlook. 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, Reena, and good morning, everyone. Let's begin on Slide 2. We delivered another outstanding quarter, that exceed the high end of our second quarter organic sales growth, segment margin, and adjusted earnings per share guidance range, with top line growth and margin expansion in all four segments. We delivered organic sales growth of 15%, led by double digit growth in Safety and Productivity Solutions, Honeywell Building Technologies and Advanced Materials, and Performance Materials and Technologies. We also returned to growth in the commercial aerospace aftermarket and UOP, amid promising signs of recovery in all the oil and gas and Aerospace markets. Segment margin expanded 190 basis points to 20.4% driven by the impact of higher sales volumes. Adjusted earnings per share was $2.02, up 60% year-over-year and $0.06 above the high end of our guidance range. We delivered a strong second quarter and a first half of the year. I'm pleased with our performance and confident it will continue to execute and deliver through the ongoing recovery in our end markets.

We're driving near-term growth in several areas of the portfolio, including warehouse automation, productivity solutions, building products and advanced materials. While the industries most affected by the pandemic, will continue improving throughout the year and into 2022. Orders were up over 20% year-over-year organically, driven by strength in Aerospace, PMT, HBT, and Productivity Solutions, creating a strong setup for growth. As always we continue to execute on our rigorous and proven operating system to drive outstanding shareholder value.

Now let's turn to Slide 3, to discuss our recent leadership announcements. Last week we announced changes to our senior leadership team, that will take place over the coming weeks and months. Honeywell's consistent success is driven by our highly talented and committed workforce which is guided by our world-class leadership team. We have a deep bench of high quality capable leaders it's demonstrated by the recent announcements.

First, Vimal Kapur will succeed Rajeev Gautam as President and CEO of Performance Materials and Technologies. Rajeev will retire in August, after 43 years of Honeywell and will serve as President Emeritus, for Honeywell PMT until the end of January, to ensure a smooth transition. Rajeev has led PMT for the past five years, and guided the business through a deep industry downturn in 2020, with an unwavering focus on taking care of employees and customers. We greatly appreciate Rajeev's exemplary leadership over the past four decades.

Vimal will transition to PMT from his prior roles, President and CEO of Honeywell Building Technologies. He has been with Honeywell for 32 years and brings outstanding leadership capabilities and a deep knowledge of our end markets to the PMT CEO role. This will mark Vimal's return to PMT, where he was previously President of Process Solutions business.

Doug Wright will succeed Vimal as President and CEO of HBT. Doug joint Honeywell in July 2020, as President of HBT's Fire and Security business, bringing deep industry experience, and has quickly made a significant impact. Prior to joining Honeywell, Doug was President and CEO of Source Photonics, a global provider of optical communications products, used in telecommunication systems and data communication networks. Prior to that, Doug spent six years at United Technologies, where he served as President of Asia, where the Company's Fire and Security business based in Shanghai, and President of company's $2.5 billion Automation and Control Solutions business.

Finally, Ben Driggs has been in Chief Operating Officer of Global High Growth Regions and will succeed Shane Tedjarati as President Global High Growth Regions when Shane retires at the end of 2021, after 17 years with Honeywell. Shane has played an essential role in establishing and aggressively growing Honeywell's presence in high growth regions. And we appreciate everything he has done to make Honeywell a truly global Company. Shane will remain in an advisory capacity over the next three years.

Ben has been in Honeywell for more than 16 years and brings a wealth of global experience to his new role as CEO of Global High Growth Regions. Most recently Ben was Vice President of Global Strategic Accounts, where he was responsible for all aspects of our relationships with key customers at a global level. Prior to this role, Ben served in a variety of positions with Honeywell including President of Americas Aerospace, President of Honeywell Latin America, and Vice President of Aerospace, Asia Pacific.

I'd like to thank Rajeev and Shane for the numerous contributions they make to Honeywell, over their highly productive careers. I'd also like to congratulate Vimal, Doug, and Ben under new roles.

Let's turn to Slide 4, and talk about another exciting recent announcement. The combination of Honeywell Quantum Solutions and Cambridge Quantum Computing or CQC, forms the largest, most advanced standalone quantum computing company in the world. Honeywell's H series quantum computer offers the world's highest demonstrated quantum volume of 1,024 and CQC has the first and most advanced quantum operating system. Together they create a unique full stack quantum player in a league of its own. Quantum computing will absolutely remain a key breakthrough initiative for Honeywell.

We will own a majority of the stake in the new company, commensurate governance rights and we will have a long-term agreement to help manufacturer the critical iron traps [ph], needed to power the Company's quantum hardware. Honeywell's business were also continued serving -- its a proving ground for the Company's quantum offerings. The combination of Honeywell Quantum Solutions and CQC is essential to advancing the value that quantum solutions provide to customers. To advance this value, the new company will co-develop integrated quantum hardware and software solutions, to enable a one-stop shop for quantum customers.

Additionally, the focus will be on developing hardware agnostic software solutions in a unique Quantum Operating System, which is optimized for the quantum hardware, and which it is used. These technologies will support customer needs for improved computation diverse areas, including cybersecurity, drug discovery and delivery, material science finance and optimization, across all major industrial markets.

We're already working with global customers to deliver solutions for markets with massive scalable commercialization opportunity, including J.P. Morgan, BMW, Samsung, Google, DHL, and many others. The combined company holds over 150 technical patents and we'll have a staff of approximately 330 people, which is the largest pool of quantum talent in the world, more than 120 of whom hold doctorates and over 200 of whom are scientists, including some of the world's leading quantum computing experts.

The long-term financial prospects of the new companies are substantial. The combination is expected to significantly accelerate the path to commercial scale, creating the potential for approximately $1 billion in sales, within two to five years. We are excited about the new Company's prospects and we expect to continue to be a global quantum computing leader, shaping the future of what is projected to become $1 trillion industry over the next 30 years.

Now let me turn it over to Greg on Slide 5, to discuss our second quarter results in more detail and to provide an update on our 2021 outlook.

Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius, and good morning everyone. As Darius highlighted, we had a very strong second quarter, with sales up 15% organically, to $8.8 billion. Segment margin expansion of 190 basis points to 20.4% and free cash flow of $1.5 billion. We over delivered on our commitments again, building on the strong start we had in Q1.

Let's take a minute to discuss how each of the segments contributed to that. Starting with Aerospace, second quarter sales were up 7% organically, as flight hours continue to improve, resulting in double-digit commercial aerospace aftermarket growth. That was partially offset by lower commercial original equipment and software defense volumes. Business aviation continues to be very robust, where flight hours have already returned to 2019 levels, as a portion of customers that previously travel commercially have transitioned to business jets, for health and safety reasons.

We continue to expect the recovery in business travel, to lag the leisure travel recovery, however. We do expect to pick-up as we enter the second half of the year. As expected, air transport flight hours are recovering led by narrow body flight hours, while widebodies remain soft, as domestic travel recovers faster than international travel. As a result, our business aviation aftermarket sales were up 90% organically year-over-year, while our air transport aftermarket sales were up 32% year-over-year organically. Sequentially, overall commercial aftermarket sales were up 12% from 1Q '21, a promising sign that the recovery is gaining traction. Aerospace segment margin expanded 490 basis points to 25.7%.

Turning to Building Technologies sales were up 13% organically, driven by robust demand for building products and solutions. We are seeing broad based strength across the Building Technologies portfolio and around the world, as people return to schools, offices and transportation hubs. Building Product sales and orders were both up double digits year-over-year, driven by demand for fire, security, and electrical products, as well as building management systems.

Orders for Building Solutions projects and services were up over 25% year-over-year and the services backlog is up more than 30%, positioning the business for future growth. In addition, our portfolio of healthy Building Solutions maintain strong customer momentum, with approximately $90 million of orders booked in the second quarter for our total of approximately $150 million in the first half.

HBT segment margins expanded 120 basis points to 22.4%. On the PMT where sales were up 10% organically, driven by 30% organic growth in advanced materials, and a return to growth in UOP. PMT had a strong quarter with total orders up 20% year-over-year organically, and backlog up mid-single digits. These are encouraging signs for the future of this business. The 30% year-over-year growth in advanced materials was broad based, particularly in automotive refrigerants, foam products and specialty additives.

In UOP sales were up 8% organically driven by higher petrochemical catalyst shipments, licensing and equipment volumes. UOP orders were up over 25%, which should drive growth in the second half and into 2022. Finally, process solutions down 1% organically, but up 6% sequentially from the first quarter, as the recovery gains traction in the oil and gas industry. The year-over-year decline was driven by fewer global mega projects, partially offset by short cycle strength in the products and thermal solutions businesses, as well as demand for our lifecycle solutions and services.

HPS orders were up high single digits, providing confidence in the oncoming recovery. PMT segment margins expanded 190 basis points to 20.8% in the quarter. Finally in Safety and Productivity Solutions, despite battling some supply shortages, sales were up 35% organically, driven by continued strength across the portfolio, including another quarter of high double-digit organic growth in the warehouse and workflow solutions and productivity solutions and services businesses, which grew 57% and 38% respectively.

Personal protective equipment was also up double-digits organically, as we delivered from our strong backlog. In addition, demand accelerated in the short-cycle gas protection and advanced sensing businesses, driving high single digit sequential sales growth from the first quarter. Orders and productivity solutions and services were up triple digits year-over-year, exhibiting strong ongoing demand, which we expect to fuel second half growth in this business.

SPS segment margins expanded 20 basis points in the quarter to 14%. Growth across our portfolio was underpinned by progress in Honeywell Connected Enterprise. Second quarter recurring revenue growth was up double-digits and orders for Connected Solutions were up over 20% year-over-year, as we continue to drive SaaS growth. Our connected buildings and cyber solutions, which have been very strong in the past year, continued to grow double-digits organically and our connected industrial solutions business was up double digits year-over-year, as the industrial markets begin to recover.

So in total for Honeywell, our robust sales growth coupled with strong pricing and cost management, drove a 190 basis points of improvement in segment margins, 10 basis points above the high end of our 2Q guidance, despite the mixed headwind from much stronger sales in SPS, our lowest margin segment. For the quarter we delivered adjusted earnings per share of $2.02, up $0.76 or 60% year-over-year, $0.06 above the high-end of our guidance, $0.04 of which was due to over delivery on sales and segment profit.

The majority of our year-over-year earnings growth, $0.43 was driven by our strong segment profit improvement. Below the line items were $0.25 tailwind, driven by lower repositioning and higher pension income. A lower effective tax rate of 23% and lower weighted average share count of 703 million shares drilled a $0.06 and $0.02 benefit respectively.

Our bridge from 2Q '20 adjusted earnings per share to 2Q '21 adjusted earnings per share can be found in the appendix of this presentation. On free cash flow, we generated $1.5 billion in the quarter or 17% of sales, resulting in a 103% adjusted conversion. Free cash flow was up 17% year-over-year. Free cash flow this quarter includes the $375 million cash received from Garrett, as we resolved our contractual claims under the plan of reorganization signed last quarter.

As a reminder, we will continue to include cash receipts from Garrett, going forward within free cash flow, in order to be comparable to prior periods, where the cash proceeds from the indemnification and reimbursement agreement were recognized. Finally, we strategically deployed $1.9 billion to share repurchases, dividends and CapEx in the second quarter, which significantly exceeded operating cash flows. We paid $664 million in dividends, deployed $185 million in capital expenditures and repurchased more than $1 billion of Honeywell shares, reducing our share count to $703 million.

In all, this was a very strong quarter and caps a successful first half of 2021. We're prudently managing through the multi-speed recovery across the portfolio, continuing to make disciplined investments for the future, while meeting or exceeding our financial commitments.

With that let's turn to Slide 6 to discuss our expectations for the third quarter and the remainder of the year. We ended the third quarter well positioned to manage the multi-speed economic recovery, which will be influenced by unique end market and regional dynamics, as vaccination rates expand and the global pandemic subsides. At a high level, we expect ongoing strength across the portfolio in the second half. We should see acceleration in businesses that were most affected by the downturn, particularly the commercial aerospace aftermarket and the oil and gas exposed HPS and UOP businesses.

We do expect some deceleration in respiratory masks, warehouse and workflow solutions to come down sequentially, as large Intelligrated projects complete. And lower year-over-year volumes in U.S. and international defense in the back half of the year, though it will grow sequentially from the second quarter.

With that as a backdrop, we expect third quarter sales to be in the range of $8.5 billion to $8.8 billion, up 7% to 11% on an organic basis. And we now expect full year sales of $34.6 billion to $35.2 billion, up $400 million from the high end of our previous guidance. This represents overall organic sales growth in the range of 4% to 6%, an increase of 1 point on both ends compared to our previous guidance. We will talk more about our expectation by segment momentarily.

An update on our 2021 end market outlook can be found in the appendix of this presentation. One area to keep in mind is that, we have been facing supply chain constraints as the sourcing environment for direct materials and components such as semiconductors and resin has been very tight. As we mentioned last quarter, we proactively partnered with distributors and alternative suppliers to mitigate these impacts and have had success, but the situation remains very fluid, as global supply chains ramp up. We continue to work through this issue, but it will continue to be a constraint on our growth potential, particularly in SPS and HBT, and to a lesser degree in Aerospace.

Now let's take a moment to walk through the third quarter and full year expectations by segment. In Aerospace, our commercial Aerospace business will continue to improve gradually throughout the year. We expect business aviation aftermarket to continue to lead in the recovery and track 2019 levels or better for the balance of the year. We expect air transport flight hours to continue improving in the third and the fourth quarter, driving sequential and year-over-year growth in commercial aftermarket sales. The pace of the year transport acceleration will vary regionally in the second half, with domestic travel recovering faster than international, and with difficult to predict country-by-country dynamics tied to vaccinations. We expect narrowbody and widebody flight hours to fully recover to 2019 levels by 2024. Commercial original equipment build rates are progressing gradually as we expected.

Second half defense and space sales will be pressured by lower demand from U.S. DoD programs, driven by moderating U.S. defense spend, as well as by slower than expected international defense volumes. As a result of these defense and space dynamics, we now expect full-year organic sales growth to be down low-single digits for the year in Aerospace.

In Building Technologies, we expect ongoing demand in the second half for products, services and projects, as business conditions continue to improve as the world reopens. We anticipate broad-based order strength in the third and the fourth quarters, particularly for building solutions projects, which we expect will ramp up as energy projects in the government and education verticals gain traction. We will continue to execute on our strong project and services backlog driving strength in the back half.

In addition, we will benefit from continued customer demand for our portfolio of healthy building solutions. Overall, we now expect full-year organic sales growth to be up mid single digits for the full year trending better than expected. In PMT we were encouraged by the signs of recovery and process solutions and UOP in the second quarter. And we expect to see this trend continue in the third quarter and beyond. While we expect the pace of recovery to be gradual, end market dynamics in energy are creating a strong setup for 2022 and beyond.

We anticipate that HPS will return to growth in 3Q, driven by the short cycle products and service businesses, which should deliver on strong first half orders. We also expect sequential improvement in automation projects driven by backlog execution. Orders for global mega projects increased in the second quarter, which is an encouraging sign for the business, so these orders will have a larger impact on 2022.

Overall, HPS should grow sequentially quarter-over-quarter for the remainder of the year. For UOP, we're pleased with the 2Q outcome, which included strong catalyst and project orders that should drive growth in the second half. Last we expect continued strength in advanced materials in the third quarter, driven by demand for a wide range of the businesses products. In April, we said that we were trending towards the low end of our plus or minus low single-digit full year growth expectations for PMT. Since then, our outlook has improved and we now expect full-year organic sales to be up low-single digits for the year.

Finally, we anticipate continued strength in SPS driven by another quarter of robust double-digit organic growth in warehouse and workflow solutions and productivity solutions and services. Though we expect year-over-year growth rates to remain strong in warehouse and workflow solutions, 2Q represented the high watermark for sales in that business this year as we had previously said.

We will see sequential declines in 3Q and 4Q due to normal project timing as customers enter the busy holiday season. Our productivity solutions and services backlog is up triple digits, which will drive growth in the third quarter for this business. Distributor demand continues to be strong and we expect this to continue throughout the second half. As I mentioned, we will be managing some supply constraints. We will continue to execute our backlog of personal protective equipment in the third quarter, however, respiratory demand is decelerating as various regions of the world recover from the pandemic. This deceleration will be partially offset by stronger demand and other areas of our PPE portfolio, including gloves and head and hearing protection, which we expect to ramp up in the second half. Finally, we expect continued short cycle acceleration, our gas analysis and advanced sensing business. Overall, we expect strong double-digit sales growth in SPS for the full year.

Now let me turn to our expectations for the other core guided metrics. The third quarter segment margins, we expect to be in the range of 20.3% to 20.6%, resulting in 40 to 70 basis points of year-over-year margin expansion. Margins will continue to show strong expansion despite the headwinds of the temporary cost actions from 2020 and our investments in growth of the businesses. Third quarter net below the line impact, which is the difference between segment profit and income before tax, is expected to be in the range of negative $5 million to positive $55 million, with a range of repositioning between $50 million and $100 million, as we continue to fund ongoing restructuring projects.

We expect the effective tax rate to be in the range of 22% to 23%, and the average share count to be approximately 703 million shares. As a result, we expect adjusted third-quarter earnings per share between $1.97 and $2.02, up 26% to 29% year-over-year. Given these third quarter expectations, our strong outperformance in the first half and our continued confidence in our businesses. In addition to raising our full year sales expectations, we are also raising our other full-year guided metrics, including segment margins, adjusted earnings per share and free cash flow.

We are raising the low end of our segment margin guidance by 10 basis points for a new range of 20.8% to 21.1%, representing an expansion of 40 to 70 basis points. We expect margin expansion in all our segments, as we carefully invest back into the business, while managing the multi-speed recovery across the portfolio. Our fixed cost management remains a focus and we are on track to a net increase of $500 million for the year, cementing the permanent reduction of $1 billion of fixed costs from our 2020 cost actions.

We expect our net below the line impact to be in the range of negative $110 million to positive $40 million, including capacity for $400 million to $525 million of repositioning. We continue to expect a full year effective tax rate of approximately 21% to 22%. And we now expect a weighted average share count of approximately 703 million for the year, achieving our minimum 1% reduction in shares. As a result, we are raising our full year adjusted earnings per share guidance, we now expect a range of $7.95 to $8.10, up 12% to 14% year-over-year. This represents an increase of $0.10 on the high-end and $0.15 at the midpoint, reflecting our confidence in the recovery across the portfolio.

Finally, we are raising our free cash flow guidance by $100 million on both ends for range of $5.3 billion to $5.6 billion. So in total, we delivered a great second quarter and anticipate a strong second half and have significantly upgraded our full-year view for sales, segment margin, adjusted EPS and free cash flow, as we managed through this recovery.

Let's turn to Page 7 for a quick look at our guidance progression through the year. At the beginning of '21, there was a lot of uncertainty about the virus case rates, the pace of vaccinations and the recovery around the world. We're committed to providing guidance that is commensurate with our level of visibility in the environment we are in at the time. In January with the unknown pace of recovery in mind, we took a pragmatic approach to our outlook. After the first quarter, with a little more visibility into the full year and confidence in our first quarter results, we've raised several key guidance metrics.

Now halfway through the year, we have raised them again. Our full year sales guidance is now $800 million higher than our original guidance in the high end. We've also raised the midpoint of our earnings per share guidance by approximately $0.23 and our free cash flow guidance has been raised by $100 million in the high-end. As always, you can count on us to provide an outlook that is consistent with our level of visibility.

With that, I will turn the call back to Darius to talk about the end market tailwinds that we are creating -- that are creating a strong setup for 2022 and beyond.

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Greg. Current end market macro dynamics are creating the best set of circumstances that I've seen in the last 10 plus years, that I've been with Honeywell. The commercial aerospace recovery in view, upcoming capital reinvestment in the energy sector, non-residential construction spending returning 2019 levels and the exponential growth we continue to see in e-commerce, we are setting up an incredibly strong runway for medium-term growth. This macro setup, coupled the strategies we have in place that our focus in driving uniquely innovative and differentiated technologies that address the world's increasing demand for digital transformation, process technology and sustainable solutions, gives me great confidence in our outlook for 2022 and beyond.

Let me start by talking about the medium-term dynamics in some of our key end markets. In commercial aerospace pent-up demand for leisure and business travel is expected to drive approximately 20% growth in flight hours, over the next two to three years. Business in general aviation flight hours have already recovered to 2019 levels. And we expect air transport narrowbody and widebody flight hours to recover by 2024. We are seeing a slower defense business, we are absorbing that in our strong 2021 outlook, and our growth trajectory for the next two years should remain robust.

The energy markets are gaining traction and stabilizing oil prices, support an oncoming wave of capital reinvestment in this sector. With downstream customer CapEx expected to grow at a 6.5% compound annual growth rate over the next three years. As I said before, the investment cycle post downturn [ph] is a consistent theme and will be well positioned to capture our unfair share of it. Acceleration, refining and petrochemical volumes will drive demand for our high-margin catalyst in new greenfield and brownfield projects, over the medium term will drive demand for licensing, engineering and equipment, as well as our software and automation solutions.

Our Building Technologies portfolio will continue to benefit from the ongoing global macro trends of sustainability, digitalization and public safety. Building owners are looking for healthy building solutions to create safe public spaces while optimizing energy consumption and productivity. Non-residential construction is expected to grow by $230 billion to $2.5 trillion by 2024. With refurbishments for healthy building is growing at a high single-digit compound annual growth rate over the next three years.

We also expect tailwinds from sizable U.S. stimulus programs targeting airports, education and healthcare, as well as potential government infrastructure plans, which will provide a favorable setup for our Building Technologies business. We remain very well positioned to address the rapid evolution, that we see in the click and the collect consumer buying behavior, which is creating complex fulfillment and delivery needs. In fact, e-commerce is expected to make up approximately 30% of total retail sales by 2024. To meet this growing demand, as well as to prepare for intensifying labor [ph] shortages, retailers are meaningfully stepping up investments, and work flow technologies and automation, amplifying our already strong trajectory in this market, with our growing installed base and ample runway for high margin aftermarket opportunities. So, you see our macro setup is a strong, that has been a very long time.

Now let's turn to the next page, want to highlight a few of our strategic vectors and that will play into our growth algorithm. Let's start with urban air mobility or UAM, one space where we see significant growth opportunity. The total available market will be around $120 billion annually in 2030, of which we are positioned to address $30 billion. We have leading fly by wire systems for a urban air mobility, avionics, in-vehicle management systems. In addition to highly differentiated, high assurance detect and avoid systems.

We have already won $3.4 billion of content and another $1.8 billion of wins pending. And we have $7 billion in projected cumulative pipeline over the next five years, growing to $55 billion in cumulative pipeline out to 2030. So this is a really exciting business where we are already generating substantial wins with significant future potential. We're also generating growth through the Honeywell Connected Enterprise, which is underpinned by Honeywell Forge, our suite of SaaS applications, that drive operational excellence and are essential to day-to-day management of companies complex operations.

Honeywell Connected Enterprise delivered double-digit recurring revenue growth, in orders were up over 20% in the second quarter, which serves as an excellent proof point, as we continue to focus on driving software growth. We are also recently launched a cloud-based connected building solutions, jointly developed through our SAP partnership. Our portfolio of connected solutions is demonstrating great momentum with 1 million instances of Tridium's Niagara deployed worldwide and over 5,000 Honeywell Forge OT cybersecurity projects delivered, to name a few examples.

One of the newest additions to our portfolio, Sparta Systems, is also contributing to Honeywell software growth, with orders up over 30% in the first half of 2021. Sparta SaaS customer base has grown double digits since year-end 2020 and Sparta ended the second quarter of a backlog of over $100 million. Sparta systems recently announced that a leading European specialty pharmaceutical company implemented track wise digital solution suite, that includes (inaudible) processes, in addition to complaints handling, supplier quality management, document management and training management, to seamlessly integrate quality processes in data across its manufacturing operations and suppliers. So the Sparta integration is progressing smoothly, and I'm pleased with the results thus far.

Finally, we continue to see strong demand for our portfolio of healthy building solutions, which I mentioned earlier. We booked around $150 million of healthy building orders in the first half and have a global pipeline of over $2 billion. A few examples of our customer wins across major verticals, include the Pittsburgh and San Diego International Airports, Syracuse University, and Wuhan Changfu Hospital. We anticipate the demand for healthy buildings will remain strong for the foreseeable future, is building managers seek to support occupant safety and comfort for returning workers, students, travelers and visitors. All four of the technologies on this page are proof point for our strategy of focusing R&D and breakthrough initiatives around disruptive trends, that will shape the global economy for years to come.

We have many other equally exciting breakthroughs including quantum, sustainable technology solutions and smart cities for as an example. These provide numerous growth vectors which will be accretive to the recovery in our major end markets, which underpins my confidence in what is to come.

Now let's wrap up on Slide 10. So overall, we are encouraged by the performance of the first half of 2021. Our second quarter results exceeded expectations and given our confidence in our businesses. We have a meaningfully raised our full year sales segment margin, adjusted EPS and free cash flow guidance. The Honeywell value creation framework continues to set us apart and we'll continue to deliver for all of our shareholders.

With that Reena, let's move to Q&A. Thank you, Darius. Darius and Greg are now available to answer your questions. We ask that you please be mindful of others in the queue, by only asking one question. Jake, please open the line for Q&A.

Questions And Answers

Operator

(Operator Instructions) We will begin with Jeff Sprague with Vertical Research.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Thank you. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Jeff.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Good morning. There's a lot of to ask. Actually, I'm just -- to the quantum, one thing that interested me in your comments there Darius, obviously the technology stuff is interesting. But the commercialization revenues of $1 billion, as soon as two years. I wonder if you could kind of talk a little bit about the difference between the two year and the five year framework there? Is there something in terms of a technical breakthrough -- further technical breakthrough that's required? Or it's more an issue of just developing the business model and kind of getting a customer set onboard with what you're doing here?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I think, Jeff, more importantly it's a toggle between focused on progressing that technology versus focusing on commercialization. This business is generating revenue today for CQC and it's generating revenue today for Honeywell Quantum Systems. And we could focus on energy -- our energy and continuing to drive commercialization, but we're trying to be balanced between -- yes, driving some commercialization, securing some blue chip customers, but also continue to advance the technology. I mean, this isn't necessarily an instant gratification kind of a business, because if we just over function to commercialization, although we have a year or two lead on just about everybody else in the industry, that could get short change, if we don't continue to advance it. But I think that's more than anything. So the two to four year kind of a number is based on both how we see the technology evolving or two to five, and also how we see really us focusing on technology progress versus commercialization. And I think we want to maintain both, and not necessarily just full toggle to commercialization, because I think that could sacrifice progress on the technology.

Q - Jeffrey Sprague {BIO 1494958 <GO>}

Understood. Thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

We'll now move to 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.

Q - Scott Davis {BIO 2393277 <GO>}

Good morning. You didn't fixate as much on supply chain and logistics of some of the other folks out there so far this quarter. But you did allude to it, potentially holding back growth, 0.4. Did it in fact hold back some growth this quarter? Is there anything that you can kind of report measure on there?

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, it's got to be honest, the answers is yes. I mean, I think, our results for Q3 would have easily been $100 million to $200 million higher than what we're saying because of supply chain constraints. So, it is we're dealing with the two, it's a daily battle. Some of the areas that were particularly challenged are semiconductors, resins, those are probably our top two. But we're kind of seeing some supply chain pressure across the Board. And our orders are super strong, particularly in SPS and we could easily do $100 million to $200 million more in revenue this quarter in Q3, if we didn't have those challenges.

So what we projected is kind of our reasonable best estimate of the supply we're going to get, based on, what our suppliers are committing. But it's a daily battle and where we've stood up a team on the supply side, stood up a team on the pricing side to really kind of manage both those things, because we're continuing to see inflation and we're actively managing price, which actually has been a good story, as we are able to pass most of that through.

Q - Scott Davis {BIO 2393277 <GO>}

Okay. I'll stick to one question. Thank you. Good luck, Darius and Greg.

A - Greg Lewis {BIO 20594853 <GO>}

Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thanks.

Operator

Now we'll hear from Steve Tusa with J.P. Morgan.

Q - Stephen Tusa

Hey guys, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Stephen Tusa

Can you just maybe talk about, you've mentioned before, kind of a mid-20s margin potential and you guys continue to do very well on the operating margin front. You sound obviously pretty bullish, even though you're markets aren't really firing on all cylinders yet. Is there a point in time, we are going to kind of officially update and kind of put a number like that up on -- as a mid-term target? And similarly on the growth side -- your current organic growth guidance is okay, longer-term, but like -- if you're just bullish on these growth vectors shouldn't it be a bit better than that? And again, is there a time where you would kind of update those medium term targets?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, (inaudible) it's a fair question. I think we are tentatively planning an Investor Day in November, that's probably a good time to really look at our targets. But as you hear, we are very, very optimistic about our markets here in the short to mid-terms. I mean, that we're going to have a strong tailwinds, you're just now starting to see some of our higher margin long-cycle business, as you saw very first evidence of that pickup in PMT. Aero is going to continue to improve. Widebody and narrowbody traffic is going to continue to improve.

We absorbed some of the defense and space challenges this year, so that's already embedded, and we expect that to normalize. So, as we look into next year and the year after, and the year after, I mean, we are going to be -- we're looking at our growth and margin expansion algorithm. As well as, don't forget we still have plenty of firepower on the balance sheet, which we plan to deploy and the pipeline is good, and we plan to be using it a bit more aggressively as we move forward. So, I think the set up for Honeywell, and I mean this, I haven't seen it be any better, since I've been at Honeywell and that's 13 years.

So, I think, I couldn't be more excited about what the future holds.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. I mean, I guess, I would...

Q - Stephen Tusa

Go ahead. Sorry, Greg.

A - Greg Lewis {BIO 20594853 <GO>}

I was just going to say, Steve, I agree with all that. I mean, as you know, we're pretty close to our targets in HBT. Already we've made really steady progress in Aerospace. SPS has a lot of room to run with rolling out all of the project business and Intelligrated, and all of the services and software that we expect to come behind it, still to come. So yeah, I think we'll talk to you about that in the back half of this year, as we get closer to the year-end and our guide for 2022.

Q - Stephen Tusa

Yeah, I guess I'm just trying to reconcile like a 3% to 5% growth outlook longer-term. It doesn't really jive with how bullish you sound on kind of the top line opportunities, including quantum and these other things that are out there. So that's kind of the genesis of the question.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Look forward to sharing more with you at our Investor Day and so on.

A - Greg Lewis {BIO 20594853 <GO>}

I think, (Multiple Speakers).

Q - Stephen Tusa

Go ahead, sorry. Got it. One last quick...

A - Greg Lewis {BIO 20594853 <GO>}

(Multiple Speakers) today. Go ahead.

Q - Stephen Tusa

One last quick one, just on the masks. Is there any difference in profitability on the PP&E side with those masks that are beginning to roll down here? Are they particularly profitable or what's kind of the earnings contribution? Because I think you set those up in a hurry, a year ago. Just curious as to what the profit impact is?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. So, as you may have heard within the quarter, I mean, some of our production, we basically shutdown because when we set it up in a hurry to literally within 30 days, when the pandemic struck in April 2020, we didn't optimize for cost we optimized for speed. And frankly that wasn't a very high margin gain for us. We did that because the country needed us to do it. We didn't do it to maximize profit.

So now when we reduced production, we reduced production and highly inefficient -- highly manual sales, that we were, that we could bring up quickly. But what we replace that production, is with highly automated sales, which will drop our cost per mask under range of 50%. So, positioning the business for the future is still going to be very, very strong. And you know, our IRRs and that's assuming there is not a pickup in future of masks. And as we read more and more about Delta variant, that we don't know what's going to happen. But even that IRR is greater than 20%. So better than any other investment. And like I said, this wasn't done to sort of optimize profitability. So, we got some revenue, we didn't necessarily get a ton of margin with it. And now we're in a better position, because we got production, that's done through automation, which will drop our cost profile by about 50% per mask.

Q - Stephen Tusa

Right. So actually accretive to incrementals as that kind of rolls down and your other stuff rolls on?

A - Darius Adamczyk {BIO 18702500 <GO>}

That's right.

Q - Stephen Tusa

Yeah. Great. Okay. Thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

That's correct.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah.

Operator

We'll now take a question from Sheila Kahyaoglu with Jefferies.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Thanks so much and good morning, Darius and Greg.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Hi, Sheila.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Since I'm the Aero person, I guess, I'll ask on defense, stellar growth over the last three years. Maybe can you talk about, the decline you saw in the quarter. What drove it with the U.S. budget and internationally, kind of, how do you expect that trajectory to improve from here? And the impact on maybe profitability? Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. So maybe I'll start. One is, obviously the defense and space segment is the one that's been a bit worse than we expected this year, it's the bad news. The good news is that, we expect that to normalize 2022 and 2023. So, we're kind of taking a little bit of what I'd say, hits this year. The narrowbody, the widebody flight hours, you see that in the deck, we expect it to continue to progress. The ATR OE [ph] after business is also going to continue to progress, we kind of see steady progress here in Q3, Q4 and so on.

Business aviation has been strong, both on the aftermarket, as well as the OE side, that's going to continue to progress. So overall, there is, we have great deal of optimism for what we're going to see in Aerospace and the margin performance will be very commensurate with that. Because some of the widebody narrowbody aftermarket revenue is still not kicking in, which as you know, it's going to be some of our highest margin profile. So we're -- it feels like we're kind of taking a hit on defense and space this year, next year that looks can be much more normalized. And then next year we also expect to see a high level of growth in the commercial aerospace.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Okay. Thank you very much.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Next question will be 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>}

Can you just talk, sort of big picture on what are you seeing on PMT, very good to see your outlook improve. What is sort of the big trends that made your customer base more positive? And what are the big sort of data points of trends we should be watching out for to gauge? And what are you trying to look at to gauge --sort of the direction of the industry into '22 and '23? Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Thank you Andrew for the question. I mean, I think the first thing we always look at is UOP. UOP is a leading indicator of that business. HPS trails, UOP orders by anywhere from 12 to 18 months. And UOP orders for the quarter were nearly 30% up, just to give you a perspective. So that's probably the single best data point. For our overall total, every business was up just about double digits, in terms of orders in PMT. Our backlog was up in PMT. So, all good signs. The other part that we're starting to see strong level of presence both for our Honeywell Process Solutions business, as well as UOP in some of the renewable projects. And you probably saw the Wabash Valley announcement, around carbon capture, capture that UOP one.

Process solutions is winning in a lot of the wind farm projects, solar farm projects. So we're shifting focus to where the future is, while maintaining our presence in some of our traditional markets. And as we know and we saw this movie before in the '15 and '16 timeframe, you can only depress that downstream investment for so long. And we saw that come back strong in '17 and '18. We anticipate the very same thing will happen in '22 and '23. And by the way, a lot of these petrochemical refining facilities are going to have to get reconfigured for the future of energy, which is going to be incremental growth, which is yet to see. So, we're actually very, very bullish on that market, and it's being reflected today in some of our orders -- order like rates.

Q - Andrew Obin {BIO 6337802 <GO>}

Thank you very much.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Andrew.

Operator

Moving on to Joe Ritchie with Goldman Sachs.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Hey, good morning guys.

A - Greg Lewis {BIO 20594853 <GO>}

Good Morning, Joe.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Joseph Ritchie {BIO 16351356 <GO>}

As I think about your portfolio and then also your capital structure, it just seems like the -- one of the biggest levers you have really to move the needle is putting your capital to work via M&A. And I know we've talked a lot about the organic growth opportunities. But I'm just curious like as you think about prioritizing capital in the areas that you're looking to invest from an inorganic standpoint, like how are you thinking about the priority? I know, you mentioned the pipeline looks good and any additional color there Darius, would be great.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, let me take that one, Joe. We are obviously -- our balance sheet as we've talked about all through last year is incredibly strong. It is a world-class balance sheet, whether you look at -- our pension funding, our cash position and so on. And M&A is a priority for us. We're -- as we've always talked about, we're not going to overpay and spend silly multiples on things. But we definitely are prioritizing M&A, you saw that in the first half of the year, with some of what we've done with Sparta and Fiplex. And you can imagine, quantum is essentially an M&A deal if you will, in terms of the $200 million, $300 million that we're going to be plowing into that here and that will happen, as we close out on that combination. So, we're very excited about using our balance sheet to drive M&A and add accretive business to our portfolio.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. And just to maybe add one other point to that is, our balance sheet is more pristine than it's ever been. Because if you look at our pension funding, it's now around 120% mark. If you look at our liabilities, which are either dropping or their secured through other instruments. So we have a very, very different balance sheet that we did, even five years ago. And we're going to be a bit more comfortable in terms of having a greater level of leverage, given the safety of the balance sheet, which actually provides even more potential for capital deployment. And I agree with you, I think, capital deployment is a big lever.

So this is kind of goes back to my prior point, that I made in the presentation, which is our markets are at a tailwind and we've got tremendous capacity on our balance sheet. This is kind of a rare point in the Honeywell history, where you've got good tailwinds from the markets. I talked about our strategies are working, and we've got a lot of deployment capacity on the balance sheet. I don't think there has been a better time to really -- for our position (inaudible).

Q - Joseph Ritchie {BIO 16351356 <GO>}

Hey guys, that's super helpful. If I could just one quick follow-on there, because this has been brought up a few times around the balance sheet. You guys were referenced recently in a settlement with 3M, on PSOA and that is a concern in terms of like their ability to deploy their capital in their balance sheet? Just, I guess, focused on typically think if you guys are being pride into those liabilities. And so any comments just around that settlement or potential liability from (inaudible)?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. The only comment I would make Joe is, our environmental reserves cover everything that is, that we're working on. We've done a ton of work over the last, gosh, probably 15 years relative to all the environmental obligations that the company has had. We've done tremendous things to clean up the areas that we've had involvement in, I think those have been some of our greatest accomplishments from an ESG perspective. And so, this announcement that you're referring to is, is no big news for Honeywell and is captured in our financial position, as we have continued to report this data.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I would certainly not reiterated [ph] any new news or incremental or some new liability that surfacing. I mean, it's a matter of fact, I think that there was a subset of reporting and actually a (inaudible) false thing to a close. So, I wouldn't read anything more into that.

Q - Joseph Ritchie {BIO 16351356 <GO>}

Great. Thank you both.

Operator

And next we'll hear from John Walsh with Credit Suisse.

Q - John Walsh {BIO 20618716 <GO>}

Hi, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, John.

Q - John Walsh {BIO 20618716 <GO>}

Wanted to ask, kind of a question, combo question here about pricing and also kind of the margin you're booking in backlog here at a couple of your longer cycle businesses Intelligrated, HBT, PMT, clearly strong demand, you have stimulus dollars flowing into these markets. We're not hearing, there is really much excess capacity. So, how should we think about kind of the margin profile of the projects that are now coming into the backlog, and the visibility that gives you going forward? Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, Yes, so maybe first on the pricing side, as Darius mentioned in some of his comments, that's something that we have always and continued to have a very strong eye on. And so, everywhere in our books of business that we can, we continue to pass through the inflation, that's being seen and materials and also in the labor, because in the projects business, labor is also important as well.

So, I would say, as we're looking at our margin and backlog, we're not seeing any material challenges to them. It doesn't mean that, because we are being able to price these things in. So, I wouldn't call that as -- any like a big change in our profile, but it's something we keep a very strong eye on. We talked about it, in Intelligrated, the project business, there is lower than the line average for the business overall. And that's part of the hypothesis for the business in general. Capture the -- capture the volume and then follow that through with services and software, just as we had done in process solutions.

So, I think, what we're doing is, we're finding success in being able to price with the inflationary environment, that we're seeing. And we're going to continue to manage through that, I think quite well, and in all of our project businesses, but it is something to keep an eye on.

Q - John Walsh {BIO 20618716 <GO>}

Yeah, I was actually even coming at it from it could it actually be an unexpected tailwind, just given how tight some of these markets are, right. I mean, there is only (Technical Difficulty) players that can stand up an automated warehouse or do some of these really large performance contracting projects, that sounds like, you're seeing a good pipeline of that develop, but I appreciate the color. Thank you.

A - Darius Adamczyk {BIO 18702500 <GO>}

You got it.

Operator

Our next question will come from Nigel Coe with Wolfe Research.

Q - Nigel Coe {BIO 3818998 <GO>}

Thanks. Good morning. Thanks for the question. Just want to go back to Steve's question on the medium-term margins. Greg, did you endorsed 25% medium term margin, just has been to clarify that. My real question is, in terms of the cadence from here on. Number one, can you just confirm again, Greg, if the cost base is now fully loaded with the temporary costs? I think they meant to be all back in, in 2Q. But are there any big investment spending on the horizon? Doesn't feel like Aerospace has a big investment cycle ahead of it. But some of these breakthrough initiatives maybe quantum, might. So, maybe just talk about that. Thanks.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. Yes. So the temporary cost we still have the third quarter to go, because if you think about last year as an example, we furloughed in the second quarter and in the third quarter of 2020. And if you think about the return to things like travel and the cost that comes along with T&E, I mean, we're just now in the second quarter, starting to get the organization back out on the streets, to see customers and to go visit our businesses. So, I would say, you're still going to see another step up here in the third quarter, in terms of the return of those temporary cost. And then the majority of those will be gone, those still be a little bit to trickle in 4Q, but third quarter is still yet to come.

We are investing in the business as though, and that's again part of the reason when we talk about the $1 billion net cost reduction and that $0.5 billion of increase, that is also absorbing some increase in R&D, which is happening in places like quantum, it's happening in places like Aerospace, it's happening in our Honeywell Connected Enterprise, just to name a few. And we continue as the environment strengthens commercially, we're going to invest back in the business in terms of sales resources and feet on the street and so on. So, we have a lot of confidence in being able to deliver the year with the net $0.5 billion increase, that we talked about, and that is going to encompass both the temporary cost return and some additional investments.

Q - Nigel Coe {BIO 3818998 <GO>}

Okay. Thank you very much.

Operator

And next we will hear from Josh Pokrzywinski with Morgan Stanley. Go ahead.

Q - Joshua Pokrzywinski {BIO 16605674 <GO>}

Hey, good morning guys.

A - Darius Adamczyk {BIO 18702500 <GO>}

Hey, Josh.

Q - Joshua Pokrzywinski {BIO 16605674 <GO>}

Maybe just to follow up on Nigel's questions there either [ph]. On the Aero side for margins, obviously, if we look back over the last -- call it 18 months, there is some pretty high watermarks and low watermarks. Where do you see that trending over the next kind of couple of quarters here? I understand, you maybe the mix implications of what's going on, on the defense and space side. But maybe sort of a unbound by calendar year-end timeframe of what that progression maybe looks like, as that business normalizes?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. I would say, Josh, what you're going to see -- I mean, we talked about the fact that 1Q was abnormally high. We had a $30 million one-time benefit that flew through the P&L. We also, we're still getting the benefit of some of the big cost-outs that we had taken last year. We came in 2Q, just about where we had expected, and that call it high 25 type of range. I think, we printed something like 25.7%, and I expect you're going to see that just kind of creep up through the third and the fourth quarter, as we go forward prospectively. And again more of the aftermarket business starts making its way through the P&L.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, the segments that we actually, are looking forward to enjoying the benefits from a margin perspective more, is just return the flight hours, particularly for widebodies and some more to narrowbodies. And we project that will slowly improve. I know, it's going to be correlated to vaccination rates throughout the world. We're seeing traffic pick up, the consumer traffic is strong. Actually, there is a lot of pent-up traffic demand for international travel. And that's what I said, is that, as we look at the next two to three years, it's going to get gradually better and better. And probably if there was a drawback, we absorbed it this year, in terms of the defense and space, and we expect that to normalize next year. So, that's probably the only segment, that we had some concerns about, but that's already reflected in our 2021 guide.

And as I said, 2022 and beyond looks better.

Q - Joshua Pokrzywinski {BIO 16605674 <GO>}

Got it. That's helpful. Appreciate the question guys.

A - Greg Lewis {BIO 20594853 <GO>}

You bet. Thank you.

Operator

And our final question today will come from Nicole DeBlase with Deutsche Bank.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Yeah. Thanks for squeezing me in guys.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Nicole.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Hi, there. So I guess, maybe a follow-up to -- Josh's follow up or Nigel's question. I'm thinking about margins for SPS and PMT in the second half. Margins in both segments are usually pretty heavily influenced by mix, and there is a lot of moving pieces. So, can you just talk a little bit about, along the lines of what you discussed for Aerospace, what you're thinking for SPS and PMT in the second half?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. It's going to be a pretty similar theme again, as we think about the mix for SPS in particular, that's actually going to improve. I talked about the fact that we hit the peak for this year, in terms of the project rollouts in Intelligrated. So, that's going to come down a little bit, which will provide a little bit of a mix benefit on the overall profile. So, I expect to see again sequential improvement in margins in the back half of the year, in SPS. And again the same thing being true as we think about PMT ramping up and starting to see what we did here this quarter, in terms of the catalyst shipments coming through, as Darius highlighted, our UOP backlog is very strong.

And so as that begins delivering particularly around the catalyst side, that brings with it, some nice margin accretion. We've always talked about the fact, that you can't look at what PMT margins in any one quarter. As indicative that moves around a bit with the mix around catalyst. But I do expect that to also improve in the back half of the year, as we continue to see that strengthening growth rate. So, again, that's why we feel very good about where we are right now, as we exit the first half, and we look forward to a very good second half of the year. And a nice finish, that's why we upgraded our margin range on the low-end, by the 10 basis points that we did. So, I think things are trending nicely across all of the -- all other segments.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. And I think maybe just something else to add which may be goes unnoticed, but, if you look at sort of as deep as we were hit in 2020, with some of our end markets, we're now projecting for EPS range. We're basically going to be right back where we were in 2019. So, think about that as a one-year pause, for business that's better positioned with more tailwinds than it's ever had and a strong balance sheet. So, I think that, I think from where we said, things look quite strong.

Q - Nicole DeBlase {BIO 16935492 <GO>}

Got it. Thanks, Darius and Greg.

A - Greg Lewis {BIO 20594853 <GO>}

You bet. Thank you.

Operator

And this would conclude today's question and answer session. I will now turn the call back over to Darius Adamczyk for closing remarks.

A - Darius Adamczyk {BIO 18702500 <GO>}

I want to thank our shareholders for your ongoing support. We have delivered strong results in the first half of an uncertain year, and we're well positioned to capitalize on improving conditions in key end markets, while driving near term growth opportunities across our portfolio. I've never been more excited about Honeywell's future, than I am today.

Thank you for listening, please stay safe and healthy.

Operator

Ladies and gentlemen, this will conclude your conference for today. We do thank you for your participation. And you may now disconnect.
