Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Charles Stephen Tusa, Analyst
- Deane Michael Dray, Analyst
- Gautam J. Khanna, Analyst
- Jeffrey Todd Sprague, Analyst
- John George Inch, Analyst
- Joseph Alfred Ritchie, Analyst
- Joshua Charles Pokrzywinski, Analyst
- Julian Mitchell, Analyst
- Scott Reed Davis, Analyst

Presentation

Operator

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

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

Mark Macaluso {BIO 19081474 <GO>}

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

Note that elements of this presentation contain forward-looking statements that are based on our best view of the world and of our businesses as we see them today. Those elements can change, and we ask that you interpret them in that light. We identify any principal risks and uncertainties that may affect our performance in our annual report on Form 10-K and other SEC filings.

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

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

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

Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Mark, and good morning everyone. We're excited to be hosting our call this morning from Charlotte, North Carolina, which will officially become our Corporate Headquarters on August 1st. It is an exciting time to be part of the Honeywell team, as we continue to transform our business into a premier technology company with Charlotte as our home base.

Let's begin this morning on Slide 2. It was another very strong quarter for Honeywell. We again delivered on our commitments, generating earnings per share of $2.10, at the high-end of our second quarter guidance, up 9% excluding the impact of spin-offs in 2018. This strong earnings result was driven by organic sales growth of 5% and 170 basis point of segment margin expansion. Notably, our segment profit excluding the spins on a comparable basis for 2018 was up 9% this quarter and was the largest contributor of EPS growth. For the first half of 2019, organic sales growth reached 7%, which is a proof point to the investments we've made in our business, in our sales force and in new technologies that are winning in the marketplace.

We continue to see the benefits from our strong positions on key platforms in our long-cycle business aviation and defense portfolios in aerospace; in our warehouse automation business, which is up over 20% organically year-to-date and now generates approximately $2 billion in annual sales; and our Building Technologies business, which had another great quarter. Our Process Solutions and UOP businesses, which principally serve the oil and gas industry, also both grew 5% organically this quarter, as we continue to be encouraged by the progress we are making in the Honeywell Connected Enterprise, which drove double-digit organic sales growth of our software in the quarter. In fact, this quarter, we signed a framework agreement to deliver Honeywell Forge asset performance management and improve the reliability and performance of over 1,000 industrial assets for large Middle Eastern refineries.

Segment margin exceeded 21% in the second quarter, up 170 basis points, driven by smart portfolio enhancements we made in 2018, our investments in the commercial organization and the benefits of previously funded restructuring to improve our operations. Excluding the favorable margin impact from the spin-offs, segment margins expanded 80 basis points, which was 30 basis points above the high-end of our guidance. Building on the progress we have seen for several quarters, we delivered 100% free cash flow conversion, and we remain on path to approximately 100% for the second year in a row. I am encouraged by our progress in this area and remain focused on continuing to drive improvements in working capital.

We also continued to execute on our capital deployment strategy, repurchasing $1.9 billion of shares and closing four new Honeywell Ventures investments in the quarter, bringing our total to 12 new investments in the first two years of the fund.

As a result of our first half performance, we are raising the low end of our full-year organic sales guidance by 1 point to a new range of 4% to 6% and raising the low end of our full-year earnings per share guidance to a new range of $7.95 to $8.15. We expect to generate approximately $6 billion in free cash flow for the year, and we have narrowed our free cash flow guidance to reflect this.

While we are encouraged by our performance this quarter, we're continuing to plan cautiously for the second half of the year, given the uncertain macro-environment in which we operate. We've seen some slowing in certain short-cycle businesses that has been overcome by the strong performance in rest of the portfolio. We think it is prudent to plan conservatively in the event of a broader slowdown, given that nearly 60% of our business is short-cycle in nature. I'm very pleased by our performance in the first half. We still have substantial work to do to achieve our plan, but I'm confident that the team will continue to execute.

I'll stop there and turn the call over to Greg, who will discuss our second quarter results and updated 2019 guidance in more detail.

Greg Lewis {BIO 20594853 <GO>}

Thanks, Darius, and good morning, everyone. I'd like to begin on Slide 3. As Darius highlighted, we delivered on our commitments again in the second quarter, building on a strong start we had in Q1. Organic sales growth and margin expansion performance across the majority of the portfolio was very good.

A few highlights to mention, Defense and Space grew 20% organically and the commercial aftermarket in aerospace grew 8% organically with strong demand across both air transport and business aviation. Building Technologies grew 5% organically after 9% in the first quarter. And Process Polutions and UOP, which encompass our oil and gas portfolio, both grew 5%.

The impact of the spin-off of Garrett and Resideo, both lower margin businesses, contributed 90 basis points of segment margin expansion. The remaining 80 basis points was the result of our strong operational performance, primarily in Aerospace and Performance Materials and Technologies. We continue to effectively manage the impacts of tariffs through well-executed mitigation efforts, and are in the final stages of eliminating all spin-related stranded costs before year-end. Notwithstanding our strong performance across most of the portfolio, as we messaged in April and again in May, we did experience challenges in Safety and Productivity Solutions and more specifically in the Productivity Products business, which drove a sales and segment margin decline this quarter. I will address that in more detail in a minute.

Consistent with last quarter, the majority of our earnings growth of $0.16 came through segment profit improvement. We realized a $0.06 benefit from our share repurchase program, which resulted in a weighted average share count of 733 million shares this quarter. Our effective tax rate was 21.5%, largely consistent with the outlook we provided of 22%. Importantly, we are also able to fund a substantial amount of fast payback repositioning in the quarter, more than $80 million, that will support our continued productivity focus, functional transformation and supply chain initiatives that we discussed at our Investor Day in May. These proactive measures will be helpful in the event of a slower economy in the coming quarters.

Finally, adjusted free cash flow in the quarter was $1.5 billion with conversion of 100%. The strong cash generation was most notable in Aerospace and Building Technologies. We're very pleased with our results and are focused on continuing the strong performance in the second half.

Let's turn to Slide 4 now to briefly discuss the second quarter EPS bridge. Slide 4 walks our earnings per share from the second quarter of 2018 to the second quarter of 2019. As Darius mentioned, segment profit growth was the main driver for the quarter. That acceleration was most prominent in Aerospace and PMT due to a combination of higher organic sales volumes, commercial excellence and our continued focus on productivity. We also continued to utilize our balance sheet to lower our share count. We deployed nearly $2 billion towards repurchase of Honeywell shares, consistent with our plan, to reduce the share count by at least 1% during the course of this year.

Finally, we had a $0.05 headwind on an adjusted basis from below-the-line expenses, primarily due to the proactive restructuring actions I mentioned earlier, and lower pension income year-over-year as a result of the de-risking actions we took in 2018. That was partially offset by benefits from net interest expense and foreign exchange. Funding a strong pipeline of future repositioning continues to be a key lever for our productivity playbook and will serve us and our shareholders well as we go forward. The punch line here is, we had another high-quality quarter, delivering EPS at the high-end of our guidance range.

Now let's turn to Slide 5 and we can discuss our segment performance.

Starting with Aerospace, sales were up 11% organically. This marks the fourth consecutive quarter of double-digit organic growth and capped off an outstanding first half for 2019. Defense and Space grew 20% organically, led by global demand for guidance and navigation systems, as well as increased spares volumes on US DoD programs, including the F-18 and F-22. The Defense business is well positioned. More than 50% of firm orders with delivery through 2020 are already booked.

In Commercial OE, sales were up 4% organically, driven by continued strength across the business jet platforms, which more than offset declines stemming from the timing of air transport shipments. Notably, we saw increased deliveries across all Gulfstream platforms and strong avionics deliveries on certain Dassault platforms. Regarding the Boeing 737 MAX situation, we remain aligned to Boeing's stated production schedule, and we'll continue to monitor the situation closely. But as we stated previously, we do not anticipate a significant impact to Honeywell's operational results in 2019.

Aftermarket sales were up 8% organically, driven by demand across both air transport and business aviation and growth in retrofit, modifications and upgrades, including related to the ADSP safety mandates. We continue to see good adoption of our connected aircraft technologies, which drove strong software sales growth in aerospace and continue to gain traction for our JetWave solution across all Aerospace verticals, as demonstrated by the C-17 when we announced in May, our first in Defense business.

Aerospace segment margin expanded 330 basis points, driven by commercial excellence, higher sales volumes and margin accretion from the spin of Transportation Systems. The spin contributed approximately 60 basis points to Aero's total margin expansion. The Aero business continues to execute well, investing in future technologies, driving productivity and commercial excellence, and has a healthy long-cycle backlog heading into the third quarter.

In Honeywell Building Technologies, sales were up 5% organically, driven by global demand for commercial fire products. As Vimal Kapoor and his team displayed at our Investor Conference in May, we are innovating and launching new products in this business at a much faster rate than we had in the past, and we continue to see good acceptance from our customers and strong growth as a result. We saw good growth across building management software platforms, including for Tridium [ph], which, as you may remember, is our platform for integrating building management systems and data using open and proprietary communication protocols. In Building Solutions, we drove growth in global projects across the Americas and in the airport vertical in the Middle East.

HBT segment margins expanded 390 basis points in the second quarter, driven by the favorable impact from the spin-off of the Homes business. The team continues to make steady progress on our goal to eliminate the remaining stranded costs by year-end, stemming from the homes spin. Segment margins, excluding the favorable impact from the spin accretion, were roughly flat this quarter, a big improvement from the first quarter. And we continue to make progress on supply chain optimization post the spin. Overall, it was another great quarter for the HBT business with double-digit projects backlog growth in Building Solutions, positioning the business well for the second half of 2019.

In Performance Materials and Technologies, sales were up 4% on an organic basis. Process Solutions sales were up 5% organically, driven by continued strength in our short-cycle businesses, primarily in software, maintenance and migration services, and field instrumentation devices. We also saw growth in Smart Energy, primarily in North America. The short- cycle backlog across Process Solutions is up over 12% [ph], giving us confidence that the growth in the automation portfolio should continue into the second half.

UOP sales were up 5% organically, driven by growth in licensing and engineering, as well as refining catalysts. We saw particular strength in North America with reinvestment in existing refining infrastructure and select new investments in petrochemicals and strong backlog conversion in the Middle East. UOP orders and backlog were both up over 10% for the quarter. Additionally, on a year-to-date basis, UOP orders in China were up double-digits, primarily driven by growth in equipment, licensing and catalysts.

Organic sales growth in Advanced Materials of 2% was driven by demand for our Solstice line of low global warming refrigerants and blowing agents. However, this was partially offset by lower pricing due to the impact of a legal HFC imports in Europe. Enforcement and monitoring of the EU F-Gas Regulation has been an emerging challenge and we're working diligently in partnership with other producers, EU regulators and EU member countries to address the harmful illegal imports.

Overall, PMT segment margins expanded by 140 basis points in the second quarter, driven by commercial excellence across all lines of business, direct material productivity and further improvements in our supply chain.

Finally, in Safety and Productivity Solutions, sales were down 4% on an organic basis in the quarter as segment margins contracted 420 basis points. The weakness we saw this quarter was principally in our short-cycle high, margin Productivity Products business. Similar to the first quarter, we saw a combination of continued distributor inventory destocking, fewer large project rollouts in the Mobility space and lower channel sell-through.

The second quarter sales mix in SPS negatively impacted our margins, as the volume declines we experience were in more profitable parts of the business. We continue to see growth in our Sensing and IoT business and robust demand for voice solutions and aftermarket maintenance and services and warehouse automation. As Darius mentioned during last quarter's earnings release, Intelligrated is beginning to face tougher and tougher comps as we get deeper into the year following five quarters of approximately 20% plus growth. We are seeing timing of new major system rollouts push into the second half of the year. This effect coupled with tougher sales comps in the second quarter, drove flatter sales in Intelligrated in 2Q. The large project order push outs we saw in Q2 are consistent with our customers' latest planning and not an indication of project losses.

Intelligrated's aftermarket business, which enhances customer outcomes through consultative engagements to improve productivity was up strong double-digits organically driven by demand for comprehensive life cycle support and service. The business is benefiting from the large installed base growth in the core Intelligrated portfolio. The outlook for this business overall remains very strong and we delivered organic sales growth of over 20% for the first half of 2019. And we continue to expect this to be a growth business long-term.

Within the Safety business, organic sales growth was 1%. We saw continued demand for Gas Detection products, which grew low single-digits organically and retail footwear, which was up high digits -- high single-digits organically. That was largely offset by decreased volumes of general safety and personal protective equipment. In our key end markets for the Safety business, we see solid demand for portable gas detection in the US, but slower activity in the industrial sector, given distributor inventory levels.

Let's now turn to Slide 6, and discuss our third quarter outlook. Our planning assumptions are largely consistent with the second quarter dynamics, with some further caution on short-cycle. We expect our growth this quarter will be driven by a combination of continued long cycle strength and Aerospace and Defense, coupled with short-cycle demand and Building Technologies and healthy backlog in UOP and Process Solutions. The Aerospace business, as I mentioned, has grown 10% or more organically in the past four quarters, and we expect continued strong performance due to the order growth rates and backlog in Defense.

We've established a significant backlog of new major system awards for Intelligrated over the past year that will drive growth into 2020 and allow for an expansion of our shorter-cycle aftermarket and service businesses. We are taking a cautious view on the short-cycle growth, as many of the macro signals, the China GDP, US-China trade tensions and Brexit, just to name a few are still clouding the economic outlook. We think it's prudent to plan conservatively given the uncertainties, and our 3Q and second half guidance reflect that.

As it relates to the sale of weapons to Taiwan by the US government and potential sanctions from China, we see no reason why Honeywell would be potentially sanctioned by the Chinese government, and we have received no official word from the Chinese government that Honeywell is on a sanction list of entities.

Now, let's discuss our segment outlook. In Aerospace, we continue to see robust demand in both business aviation and in US and international Defense, supported by a robust orders growth and firm backlogs for orders with delivery into 2020. Air transport shipments should increase sequentially, driven by demand for A350 and A320 aircraft and lower customer incentives. We will see tougher comparisons in business aviation, given the significant organic sales growth in the third quarter of 2018. Consistent with last quarter, we expect the commercial aftermarket activity will be driven by flight hours, airlines demand and further tailwinds from the adoption of safety and compliance mandates, principally in business aviation.

In Building Technologies, we expect good growth with strength primarily in commercial fire products in Americas and EMEA, and growth in building management software in high growth regions and for Tridium. On the service side, we expect to see Building

Solutions growth continue, given the large order funnel and considerable backlog growth in projects and services. As a reminder, HBT does have significant short-cycle exposure, particularly in the products vertical. And although we haven't seen order rates slow, we are planning cautiously here in the second half.

In Performance Materials and Technologies, we expect to see short-cycle demand for Products and Services and Process Solutions and growth in equipment, adsorbents and refining catalyst in UOP. We saw good bookings and equipment in catalysts in the second quarter, and growth in the Process Solutions service bank for new contracts and renewals, which we believe sets PMT up for another good quarter in the third quarter.

Finally, given the challenges we experienced in Productivity Products and our assumption that the inventory destocking continues for the balance of 2019. We are expecting to see continued headwinds in SPS from both a sales and segment margin perspective, but anticipate that will moderate in the fourth quarter. We expect Intelligrated third quarter performance to be similar to 2Q with 20 plus percent growth in the aftermarket business, but slower large project growth. We maintain a robust backlog of project awards from blue chip customers and see a very strong pipeline of potential awards in the third and the fourth quarters.

The net below-the-line impact, which is the difference between segment profit and income before tax will be minimal this quarter. The difference year-on-year is driven primarily by lower pension income, the benefit from spins indemnification payments partially offset by higher repositioning funding.

Now let's move to Slide 7 to discuss our revised full-year guidance. As Darius noted, we are raising the low end of our full-year organic sales, earnings per share and free cash flow guidance. Our organic sales guidance moves 1 point on the low end to a new range of 4% to 6%, while our segment margin guidance is unchanged. Revised earnings per share guidance of $7.95 to $8.15 represents earnings growth of 8% to 10% adjusted, excluding the impact from the spins in 2018. We remain on track to deliver approximately 100% free cash flow conversion.

Our position on tariffs is unchanged. We expect no significant impact in 2019 given the proactive measures we have taken to mitigate. We also continue to closely monitor the Brexit situation and are communicating regularly with our customers, partners and suppliers. As we stated last quarter, we're planning for various potential Brexit outcomes, including a no deal Brexit scenario to ensure that as the terms of the UK departure from the EU are finalized, we are well positioned to continue meeting our customers' needs. Our guidance continues to reflect the weighted average share count of 731 million shares, and an effective tax rate of approximately 22%. Our net below-the-line expenses are now expected to be approximately $120 million in 2019. This reflects slightly higher reposition expense charges, partially offset by greater interest income.

We continue to be confident in our ability to execute and in our outlook. We're sticking to the playbook around short-cycle caution, given the macro uncertainties that remain in the second half of the year.

With that, I'd like to turn the call back over to Darius, who will wrap it up on Slide 8.

Darius Adamczyk {BIO 18702500 <GO>}

Thanks, Greg. We are encouraged by the performance from our businesses thus far in 2019. We continue to execute on our commitments to share owners, are generating strong organic growth in many end markets and have multiple levers to enable further margin expansion. Our operational performance is generating strong free cash flows and conversion, while investing in the business to ensure we are well positioned for the future. I'm also encouraged by our progress with the business transformation initiatives we've discussed at our Investor Day, particularly given the -- because of the significant opportunity I see in these areas in the future of Honeywell.

Let's be clear, we have a lot of work to do to execute these initiatives. But I continue to be excited by the energy and enthusiasm I see across the employee population to move the ball forward and truly differentiate Honeywell from our competitors.

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

Mark Macaluso {BIO 19081474 <GO>}

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

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Thank you. Our first question is coming from Joe Ritchie from Goldman Sachs.

Q - Joseph Alfred Ritchie {BIO 16351356 <GO>}

Thanks. Good morning, everyone.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Joe.

Q - Joseph Alfred Ritchie {BIO 16351356 <GO>}

So look nice quarter. I guess the -- obviously, there's going to be lot of questions around the short-cycle commentary. I heard you guys say cautious a few times during the prepared comments. I guess maybe, as I think about your business today in the Safety and Productivity Solution side, maybe talk a little bit more why you expect the destock to last and what's really driving that through the fourth quarter? And then secondarily, in that business, the commentary around new major system rollouts being pushed out, I'm just curious whether you guys are seeing any saturation in that market.

A - Darius Adamczyk {BIO 18702500 <GO>}

Let's maybe take that kind of two segments. So number one is, we anticipated some level of destocking to occur. Obviously, at the distributor levels, we weren't supported by the level of business. So what we've projected for Q3 and Q4 is some level of moderation, but certainly a continuation of the trend in terms of softness in that end-market as the destocking continues. We're -- obviously our plans are a bit better than that. But what I don't want to do is, in the short-cycle business, I don't want to be forecasting too aggressively and then end up disappointing. So that's kind of what we do have baked in particularly into the Q3 outlook, which is still negative and moderating a bit more into the Q4 because one of the things we're trying to really assess, and how much of this is market and how much of this is us, that's still unclear. Some of the early indications we had that the market is getting softer, but again, until we see all the data points and some of our competitors report and put all that piece -- all that together, we're really not sure. For now, we're going to assume it's us. Because I think, I don't want to just say, well, it's the market, so we don't need to do anything. I can tell you we have a very aggressive commercial program to address some of these challenges and to drive business at the end user level.

The good news here on Productivity Products is, this is not a technology issue. We actually have very good technologies. They've been successfully launched, most recently in Q2, around our warehouse business and our TLC, which is our strongest segment. So I'm very encouraged by that. So that's really the story on SPS -- or I should say on Productivity Products.

In terms of Intelligrated, it's a very different story. Intelligrated has been growing by strong double-digits like think well north of 20% on average for the last several quarters. And what's happening there is, simply some of the orders that we expected in Q2 got pushed out a little bit. They're still out there. We expect to book them in Q3, Q4. We didn't lose them. I know that for a fact. And the business is going to continue to grow and we're very bullish on the business. So there isn't a greater or different story here. The business is gaining share. It's performing extraordinarily well. We see a little bit of a blip in delay in terms of the order bookings and that's what we accounted for in our outlook.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, and I would also just add that the aftermarket business, which as you know, capturing the installed base and then going and mining the aftermarket is a big part of that whole thesis, is doing terrific. We're up over 20% on the LSS business and have been for multi-quarters. And as you know, that also carries a higher margin profile. So I think that part of the playbook is working nicely.

Q - Joseph Alfred Ritchie {BIO 16351356 <GO>}

That's helpful to hear. And obviously, we prefer for you guys to be prudent as you're planning assumptions go for the second half of the year. I guess on that -- in that vein, right, like you started the year off with roughly 7% organic growth above where your organic guide is for the year. Long-cycle backlog still plus 10%. I guess, what is then the embedded planning assumption for the short-cycle businesses? It seems like you're planning for very, very low growth, if any growth, in short-cycle in the second half of the year. And maybe what are some of the puts and takes you've got there?

A - Greg Lewis {BIO 20594853 <GO>}

Well, again, Joe, the Productivity Products, one, is a big contributor to that. But you're right, for the remainder of the short-cycle businesses, I would say outside of maybe the Aerospace aftermarket, we're planning for low-single digits. And again, as we've seen that can turn very quickly, so we don't want to get too far out ahead of our skis there.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think we have it right, Joe. I think, LST for short cycle, think MST to maybe even a touch higher for the longer cycle, depending upon the segments, but that's sort of the rough math. So the punch line is, we are planning somewhat cautiously for the second half because the geopolitical and the economic movements are pretty volatile right now. And what we try to do is, we try to guide that somewhat cautiously based on what we're seeing today, and the short-cycle is somewhat unpredictable and can turn very quickly.

Q - Joseph Alfred Ritchie {BIO 16351356 <GO>}

Got it. Thanks, guys. I'll let others get on the call. Appreciate it.

A - Mark Macaluso {BIO 19081474 <GO>}

Thanks, Joe.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

And our next question is coming from John Inch with Gordon Haskett.

Q - John George Inch {BIO 1793553 <GO>}

Good morning, everybody.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, John.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

Q - John George Inch {BIO 1793553 <GO>}

Hi, guys. I think, Greg, you had mentioned that you are taking proactive steps for Brexit. What exactly -- in the case of a hard Brexit, what exactly does that mean? Does it mean you're sort of (multiple speakers)?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, it's really about certifications, John.

Q - John George Inch {BIO 1793553 <GO>}

Okay.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, it's really about certifications and making sure that certified bodies in the EU are going to allow the product flow to continue. So we've been basically re-certifying our products with other EU bodies as opposed to the UK bodies that we had many of our certifications through. And that's been an ongoing effort and we're substantially complete at this stage, which is very good. And then we're just also setting up additional triage in terms of actual movement of goods in the event we need to do anything special or different in terms of air freight or premium freight in that sense to get product to flow. So those are really the two things that the teams have been working most closely on. And you can imagine too when you think about that even from our own internal wiring, there's system changes and so on that need to allow those things to be true for us internally as well. So that's what the teams have been furiously preparing for so that we're ready no matter which way this goes.

Q - John George Inch {BIO 1793553 <GO>}

And then how did Europe and China do as regions? I remember China was down a little bit last quarter, obviously, given sort of some of the shorter cycle stuff going on there. I think Europe was more resilient. Was there any sort of real change and change in terms of China and the kind of a regional impact like the Malaysia sort of Middle East impact? Is there anything else that you would call out there?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I'll take that one. John. I think overall, we're kind of pleased. I'll highlight a couple of things. For example, our PMT bookings in China were around 20% in Q2, so some real strength. We had some tough comps, I think, flattish to slightly up for China for Q2. But that's driven by particularly some of that tough comps that we had in PMT. So overall -- obviously there's some level of concern for the China economy. But overall, given the bookings we saw in PMT, that was strong.

Europe stayed strong, I think, low-to-mid single-digit for us, sort of some spotty in places. Germany was strong, Italy not so much, but overall, fairly good growth rate for us. Middle East was very, very strong. We're very encouraged by that. India was up double-digit, very strong growth there. LATAM doing well. So for the most part, we're still seeing pretty good growth around -- across the globe. Granted China maybe wasn't what it was last year, but also not a complete meltdown and move downward. So overall, we're still encouraged by what we're seeing out there.

Q - John George Inch {BIO 1793553 <GO>}

Darius, do you feel that the backlog of restructuring projects that you have would be more than sufficient if sort of the cadence of the global economy continues to soften a little bit? Or would you actually be looking to do more projects. Obviously, you guys are pretty aggressive in terms of your you're playbooks historically. I'm just --

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I think -- John, I think that's the highlight -- that's maybe one of the highlights of the quarter. I think we really invested in our future this quarter. We had some very, very attractive restructuring projects and we wanted to make sure we fund them because we probably could have delivered even higher EPS result in Q2 if we didn't fund those. But we thought it was prudent, particularly in this level of economic uncertainty to fund those restructuring projects now, particularly given the kind of paybacks we saw on those. But the real answer to your question is, I guess, it all depends upon how much of economic hit we would take. We're kind of protected to the levels we're forecasting. If those economic cycles are deeper than that, then obviously, we would have to do more. So it's a bit of a wild ride as you can see it right now with sort of news items coming every day. But we do what we do all the time, which is we plan cautiously for productivity. And if the environment is worse than we anticipate, then we're going to take another round of cost actions to offset those.

A - Greg Lewis {BIO 20594853 <GO>}

Yeah. I mean just so, the repositioning pipeline is a process, just like a sales pipeline or an R&D pipeline. We're working that at all times, so that we are ready when the opportunities present themselves from a funding perspective, and obviously as the economic environment moves. So that's absolutely part of our routine all times.

Q - John George Inch {BIO 1793553 <GO>}

Got it. Thanks very much, guys. Appreciate it.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks, John.

Operator

Our next question comes from Deane Dray with RBC Capital Markets.

Q - Deane Michael Dray {BIO 1722688 <GO>}

Thank you. Good morning, everyone.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Dean.

Q - Deane Michael Dray {BIO 1722688 <GO>}

Hey. Maybe we can follow-up on some of Joe's beginning questions on the push outs that you're seeing. And so for Intelligrated the push outs, are they attributed to anything in particular? Is that macro uncertainty? Do you just have sense of what's driving the delay and capital commitment? And then similarly, one of your competitors in process has been talking about seeing big project push outs out of the second quarter into the third and fourth quarter. I would be interested in, if you're seeing some of those dynamics as well?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Let's started with Intelligrated. I'm not sure there is a single cause for that. Some of these projects are fairly substantial from a capital perspective and there is timing around Board meetings and so on. But we have an indication from our customers that these projects will happen. So I don't anticipate that will result in cancellations. The timing is always unpredictable on large projects. We expect some of those to land in Q3. It wouldn't shock me if they land in in Q4, but they're not disappearing and they're not being canceled.

In terms of the large projects, PMT had a pretty good booking quarters overall. It was stronger in UOP than it was in HPS. We're seeing something somewhat similar on the large projects, per se. Those are getting sliding to the right a little bit. But we saw some other strong bookings, particularly on the shorter-cycle, some of our services build business, our advanced solutions, our software businesses. So it's been a bit of a mixed story when it comes to larger projects here, maybe perhaps those are sliding a little bit to the right. But in our backlog grew, our bookings were good in PMT and we anticipate pretty, pretty strong second half of the year.

Q - Deane Michael Dray {BIO 1722688 <GO>}

And then across the shorter cycle portfolio and the softness that you're seeing, are you seeing any competitors beginning to use price as a weapon here to drive some volume? And take us through the portfolio and where pricing may have seen some of that pressure.

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, I think all short cycle isn't the same. As we look at HBT, I think our short cycle has actually stayed fairly strong. I think the results speak for themselves, it's been a really good first half for our HBT business, and we actually are expecting that to continue into Q3, where the business is doing very, very well. In SPS, it's the Productivity Products issue that we talked about earlier. I can't really necessarily point to price. I mean, as the market is softer, pricing becomes more of a challenge, some of that is definitely true, but I don't want to point at competition, that this is necessarily any kind of a pricing thing. I mean, yeah, there is greater level of competition when markets get softer that's true.

A - Greg Lewis {BIO 20594853 <GO>}

But we've had--I mean, we're getting price and we're getting growth still in the short cycle currently. Again with the exception of the productivity products story. And then as we mentioned in the prepared remarks, in the HFC business, that's one place where we're seeing a very specific competitive move going on with some of the illegal imports coming in, into Europe. So that's really the only place that I would highlight as something really visible that we can see competitively.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah.

Q - Deane Michael Dray {BIO 1722688 <GO>}

Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks, Dean.

Operator

And we'll take our next question from Scott Davis with Melius Research.

Q - Scott Reed Davis {BIO 2393277 <GO>}

Hi. Good morning, guys.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Scott.

Q - Scott Reed Davis {BIO 2393277 <GO>}

You guys are putting up pretty predictable numbers each quarter, and it just begs a question, you spent a good chunk of the investor day talking Forge and connectivity and all these interesting things you're working on, and also the supply chain stuff. Is there any way to measure kind of your progress in these areas, like for example the big margin gains you had this quarter, could you ascribe any of that to supply chain? Or is that still out there or to come?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think, let me start taking this. I think in terms of a lot of our ISC transformation, I can't-- we are in the -- we're not even in the top or the first. We're grabbing the bat at this juncture, so that's something that you're going to see a lot more pronounced really in 2020 and beyond. We're just getting started, so I'm not going to tell you there's a lot attributed to the ISC transformation. You probably shouldn't expect much until 2020 and beyond.

In terms of Forge and our software play, I think that really the best way to measure that business is growth. That's the single biggest metric I use and is it profitable growth, and I was very pleased with what we're seeing -- double digit software growth, margin that's accretive to Honeywell, margin that's very attractive, and we're gaining traction, we're winning jobs. We pointed to a large Middle East win that we had, which is very large in scope, and our customers trust us, so I'm very pleased with the strategic progress we're making. But our measures are typically financial in nature, because you can make yourself feel good by looking at actions. If you look at financials, and especially for Forge and connected enterprise, ultimately we look at the growth rates and they've been double digits, which is good, which is around expected.

A - Greg Lewis {BIO 20594853 <GO>}

Yes, and the other thing I guess I would highlight is internally, we're looking obviously at recurring revenue streams and trying to continue to enhance our recurring revenue streams, so that's something that as we measure the progress in the connected, that'll be one that we watch as well pretty closely.

Q - Scott Reed Davis {BIO 2393277 <GO>}

Okay, makes sense. And I just have a question about Intelligrated and the sales-cycle. When you install -- when you do the big project, presumably there's some sort of warranty period. I mean, when do you start getting aftermarket from those installs?

A - Darius Adamczyk {BIO 18702500 <GO>}

It's after the completion and turning over the project over to the user, because a lot of times we'll get the service contract as soon as the job is complete, and yeah, and granted, there are some things that are on warranty, but we're trying to have the same approach with the Intelligrated business, as we do with our HPS business, where we have these longer cycle, the Assurance 360-type of contracts, and we've had great traction in that, over 20% growth in Q2. This -- by the way, I'm not indicating any kind of a slowdown in this business. I don't think we can expect the 20%-plus growth rates that we've seen, but we think that this is going to be a high single digit, double digit growth kind of business. What we've seen that although the push-outs of the orders, although disappointing, the good news and the fact that our strategy is working is this, which is our services business was up over 20%. It enabled that business to have an accretive margin to what it had last year, and the strategy we're trying to execute is working. Unfortunately we can't control the timing of when the orders land, but I can tell you that they're not due to losses.

Q - Scott Reed Davis {BIO 2393277 <GO>}

Yeah. I mean, just a quick follow-up on that. At what point does aftermarket become a bigger piece than the install revenues? Is it three years out, five years...

A - Darius Adamczyk {BIO 18702500 <GO>}

Well, to be honest, Scott, I hope not for a while, right? Because that means that our project cycle is slowing. But, it's a bit of a function that still the projects business is the predominant component in that business, so what would have to occur is the services businesses are already growing at over 20%, the projects business slowed a little bit this past quarter. I actually hope that we get more of the projects, and I think that will happen. I don't think that this is now the sign of, oh God, the warehouse automation segment is slowing. I think that this could be a blip for a quarter or two and it will resume. But that's really kind of how things will work, is ultimately the projects business will slow down, I don't think that's necessarily now. And the LSS is going to become a bigger growth component of the business. We kind of saw a little bit of a preview of that in Q2, but I don't think that's a long term trend yet.

Q - Scott Reed Davis {BIO 2393277 <GO>}

Okay. Good luck, thank you guys.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks, Scott.

Operator

Our next question is coming from Steve Tusa with JP Morgan.

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

Hey, guys, good morning.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Steve.

A - Darius Adamczyk {BIO 18702500 <GO>}

How are you? Good morning.

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

Just so we're all on the same page here on the SPS thing. How should we think about kind of the absolute profit for the third quarter, and then I guided to something like a $1.1 billion or something like that for the year. Are we kind of just south of a billion for the year now when it comes to profitability? Then just as a follow-up, a pretty big miss -- you guys were out at EPG not too late, but late May. Did something change significantly in June, or was this something that you knew about but there was enough offset in the rest of the portfolio that you didn't feel the need to call it out?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Well, I think, Steve, let me start with the second comment and then I'll turn it over to Greg. In terms of SPS and more specifically Productivity Products, I think we called it out both in our Q1 earnings reports and John talked about it at our Investor Day. I think that we were pretty clear that this is going to be another quarter, where we're going to see destocking and some challenges on sort of commercial. So I think that-- you know, was this a little bit greater than we anticipated? Yes. Was -- did we signal it? I think we did, and maybe specifically haven't talked about it at EPG, but we certainly did at our Q1 earnings call, and John talked about it specifically at Investor Day. So I'm not sure that we're shocked by what we saw. So it, like I said, it's a little bit more pronounced than we anticipated, but not totally out of whack with our expectations.

A - Mark Macaluso {BIO 19081474 <GO>}

Yeah, then on the profitability front, Steve, I think given the mix of sales that we're seeing in the second quarter, I think it's going to look fairly similar in Q3, so I would expect margin rates to be in that same range of 11%, 12% type margins in the third quarter. Fourth quarter should get a little bit better, but that's how we're thinking about it as we exit the second half.

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

Okay. So, like $225 million to $250 million in the fourth quarter, something to that extent on -- on segment profit?

A - Greg Lewis {BIO 20594853 <GO>}

Yeah, the margin rates are going to be in that--again, similar range.

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

Okay. One last quick one. Just -- when you guys talk about short-cycle. I mean, to me when I look at the results at commercial, aftermarket, and some of the shorter cycle stuff in PMT, Building Technology is perfectly fine, you're really -- you're not necessarily talking about all short cycle. It seems like it's an SPS type of dynamic, and how bad was the scanning and mobility side, the stuff that you compete with Zebra on? How negative was that in the quarter?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think that's right, Steve. This story is really about Productivity Products. That was what we signalled, a little bit worse than we thought, it wasn't a good outcome, and it was down for the quarter. So it was a little bit down than -- more down than we thought. Some of that is, my guess, although I want to emphasize I don't know yet, because I always assume it's our issue, not a market issue. I think there was obviously some issues in the market and market slowing. We've had some early data points which would indicate that and some commercial execution things that we need to fix, as well as really the destocking thing was the biggest factor. Frankly, the inventory levels really exiting 2018 are unsupported by the business levels, and some of our distributors are taking actions to do that. So that's really -- it's really kind of the negative story. It's not -- you're right. It's not widespread, it's predominantly limited to one business which didn't have a great Q2.

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

Yeah, and that's why you guys planned conservatively for the second half. Thanks a lot, appreciate it.

A - Darius Adamczyk {BIO 18702500 <GO>}

That's right. Yeah. Thanks, Steve.

Operator

Our next question is coming from Gautum Khanna with Cowen and Company.

Q - Gautam J. Khanna {BIO 5672198 <GO>}

(technical difficulty) $1.9 billion of stock in the Q, I think that's a multi-year record or close to it. Are you still thinking $4 billion repo in the year, and then also another, second question is, if you could please just speak about the M&A pipeline and whether or not you're seeing anything attractive? Thank you.

A - Mark Macaluso {BIO 19081474 <GO>}

I'm sorry. This is Mark. Can you resay question? We missed the first part of it.

A - Darius Adamczyk {BIO 18702500 <GO>}

You got cut off in the beginning.

Q - Gautam J. Khanna {BIO 5672198 <GO>}

I'm sorry about that. So, my question was related to the stock repurchase. You bought $1.9 billion in the quarter. Are you still thinking about $4 billion for the year? The second question was, if you could just give some color about the M&A pipeline and whether you're seeing anything attractive? Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Sure. You're right, $1.9 billion was a fairly healthy amount of repo in the quarter. I think we're about $2.6 billion on a year-to-date basis, and all of that is still aiming at getting the 1% reduction from year to year, so $4 billion for the year is probably in the right neighborhood of where we'll land. Obviously, some of that depends on the share price performance for the remainder of the year, but I think that's a reasonable assessment of what the end of the year will look like. And then as it relates to the M&A pipeline. I mean, we continue to be active. I wouldn't say we had -- other quarters, we've come in and talked about having things that were right at the one yard line that didn't happen. I don't think we had anything that was quite that close in this particular quarter, but we continue to be very active across all four of the businesses, and then as we've talked about, we're ramping up the activity particularly in HPT, given the fact that business is now on much firmer footing.

Q - Gautam J. Khanna {BIO 5672198 <GO>}

Okay, thanks. If I can squeeze one more in here. What are your -- what are the demand trend expectations for PMT in the second half? Kind of -- or what sort of growth are you looking at for those, for UOP, HBS and Advanced Materials?

A - Greg Lewis {BIO 20594853 <GO>}

Think about that as mid-single digits. Again, with the backlogs that we have entering the back half of the year, we think mid-single digits is a very reasonable spot for PMT.

Q - Gautam J. Khanna {BIO 5672198 <GO>}

Okay. Thanks, guys.

Operator

And our next question is coming from Jeffery Sprague with Vertical Research Partners.

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

Thank you, good morning everyone.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Jeff.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Jeff.

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

Good morning. We've spent a lot of time on SPS for good reason, but let's talk Aero for a moment. The margins were extraordinarily strong there, stronger than I might have guessed given the mix. I know you've got some commercial-like margins in part of your Defense and Space business, but can you give us a little bit more color on what really played out in the margins in the quarter and how you see the rest of the year playing out there?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean, I think that margin growth is really a testament to the execution prowess of the Aerospace team and a lot of our strategies that we are working. I think sometimes we forget that our software business isn't just in Honeywell connected enterprise, it's also in our avionics franchise, and that group has done a tremendous job in really shifting its focus through RMUs and upgrades and enhancements, and we saw the benefits in that because it obviously has accretive margin rates. They've done a great job at driving productivity in the business. So although -- this is that ultimate combination we also want to see, which is you can drive productivity while getting good growth and you really, then you really expand the margins. We're obviously focused on the connected enterprise and connected aircraft is helping margins as well, good growth on spares.

The BGA market is very, very strong right now, both in terms of OE and aftermarket. It's a testament to a lot of the great wins we've had on the platforms, but also supporting our customers in flight. So overall -- and then lastly, but certainly importantly, Defense and Space has just been on fire and just about any segment to want to look, we've been there, whether it's helos, whether it's the US, international defense, all those segments are doing well. I think this is really an important fact, Jeff, that as we look from now through the end of 2020 -- end of 2020, we have more than 50% of the business already booked, so we're really in -- at really nice shape as we look into the future.

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

Right. Thanks for that. Just back to this China question, I fully understand your position and statement this week as it relates to this. I wonder if you have seen or how you would keep an eye out for maybe more subtle pressures, not only on your but obviously your -- you would see it in your own business, but any indication that US or western companies are just getting a little bit of the cold shoulder around the edges or any other kind of behavior change in the business that you've picked up.

A - Darius Adamczyk {BIO 18702500 <GO>}

No, I don't. I think as Greg pointed out -- I know we've received interesting press on this subject, but we have seen no indication from China Authorities that there are any sanctions coming our way. We have received no sanction. I think I'll point to a couple of things. Number one is, we've received our first Jetway order in China, which is very promising. I mentioned the PMT bookings in China were very, very strong in Q2. China is an important market for us, we play it locally, we have a lot of manufacturing, a lot of R&D facilities in China, it's a market that we take great pride in serving local for local, and we expect that to continue.

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

Great. Thanks a lot.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

Our next question is coming from Julian Mitchell with Barclays.

Q - Julian Mitchell {BIO 21229700 <GO>}

Hi, good morning and thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Julian.

A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Julian.

Q - Julian Mitchell {BIO 21229700 <GO>}

Maybe just a first question around overall cadence of demand in recent months. Your organic sales growth was 8% in Q1, it's guided at the midpoint at 3% in Q3, so a pretty severe slowdown with comps that are not that different. Aside from what you've talked about in SPS, have you seen any changes in demand in recent months? Several companies talked about June being materially worse than the rest of Q2. Just wondered what you'd seen recently in that respect.

A - Greg Lewis {BIO 20594853 <GO>}

Hey, Julian, this is Greg. We haven't seen any really clear patterns like that across the portfolio that would cause us to say that June is the beginning of a huge slowdown. So across the portfolio, I would say the answer is no. But as Darius mentioned earlier, the portfolio is not one thing, and so I expect that we're going to see different dynamics across the different parts of the portfolio and across different parts of the globe. Darius talked about the strength in Europe earlier, and there's a lot of strength there because the Aerospace business is doing particularly well. And as long as flight hours stay strong, we expect to see Europe continuing to do well there. The dynamics in China, as we mentioned, are strong on the long-cycle side with UOP orders, so we've got a very strong backlog in PMT in the short cycle businesses. So, far the answer, no real pattern down, but it's something we absolutely watch as you would expect.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, and just to maybe add to that. Actually if you look at June, it's a year-over-year organic growth basis, it was our best month. Now granted, we saw some softness in SPS which was pronounced, and that's why we have a bit more of a cautious guide for Q3. That's really the reason, is we're not expecting a miraculous turnaround in SPS in Q3. Some of the softness we saw in June, we actually anticipate may continue and that's why you see our guide. But overall if you look at total Honeywell organic, June on a year-over-year basis was actually our best month of the quarter.

Q - Julian Mitchell {BIO 21229700 <GO>}

Great, thank you for that detail. Maybe just picking up on your last point, Darius. Within SPS, the warehouse and workflow solutions piece, revenue growth there was 7% in Q2 after 50% growth in Q1. What should we expect in the second half in terms of warehouse and workflow solutions sales trends specifically? Do you expect to pick up from Q2 as some of those orders get realized or you're leaving it as sort of a single digit growth assumption for now?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean, if you're referring to Productivity Products, which I think there's kind of two different components. We don't expect a major turnaround here in Q3. Like I said, we still expect that to be negative for Q3 and some level of moderation in Q4. When it comes to Intelligrated, we're still expecting high single digit, double-digit growth for the year. Q3 is a little bit dependent upon exactly when we land some of the orders, but think about, we're now getting into the tougher and tougher comps, so we're thinking about single digit kind of growth rates for the second half. But again, just to be clear, that's depending upon when those orders come, because we're ready to execute those, and we have every indication that they'll land. Obviously, getting those sooner in Q3 would be better, getting them later or pushed out to Q4 would be worse, and that's a little bit tough to predict. But I'm very bullish on our ability to secure those orders when they do land. That, I'm not that concerned about.

Q - Julian Mitchell {BIO 21229700 <GO>}

Perfect. Thank you.

A - Greg Lewis {BIO 20594853 <GO>}

Thanks, Julian.

Operator

The final question is from Josh Pokrzywinski from Morgan Stanley.

Q - Joshua Charles Pokrzywinski {BIO 16605674 <GO>}

Hi, good morning, guys.

A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Josh.

Q - Joshua Charles Pokrzywinski {BIO 16605674 <GO>}

Just a couple of, I guess, more clean-ups than anything else. I think we've beaten SPS to death, so hopefully John can take the rest of the day off. On Aerospace specifically, clearly commercial Aero aftermarket doing very well. I want to make sure that there's nothing unsustainable there, particularly as it pertains the Max grounding, maybe with some of these older aircraft filling the schedule that aftermarket gets a little bit of boost and we shouldn't expect all of that to continue. I know the trend line is good, I just didn't' know if there was a little extra that you got out of the quarter.

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I would say this -- there is probably a little bit of that, where you had more older aircraft flying vis-a-vis, but that's not going to have the kind of dramatic impact on our results. So I wouldn't say that that's really the cause and effect. I think as long as the air miles stay strong, as long as the economy stays in reasonable shape and people continue to fly business aircraft and buy business aircraft. Defense and Space business, like I said, we're already more than half booked for the next 18 months. Things can always change, but overall we're not -- this is not an area where we're concerned. We should have very good visibility to Q3 and Q4. Obviously, this is a long-cycle business. Short-cycle continues to look strong, so overall I don't think that this is some kind of a blip or unusual event here in Q2. I think this is evidence that our strategies are working the Aero team is executing.

Q - Joshua Charles Pokrzywinski {BIO 16605674 <GO>}

Got it, that's helpful. Then just back on the topic of inventory, I know that that's clearly driving some of the activity in SPS. But as you look back on maybe the second half of '18, are there any businesses that now with the benefit of hindsight you can say, maybe we -- we saw distributors take on more inventory than perhaps they were selling through and it's something we're watching a channel here and there, that you can share with us or we should keep in mind as we go into the second half?

A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, like you said, hindsight is always 20/20. I think the distributors to some extent play the same role we do, is they want to be prepared for good markets and they want to be prepared to sell out product, so could you say that they took on a bit more inventory than they should have? Well, yes. Hindsight, that's clearly the case. And yeah, and you're right, we are watching days of inventory. We are bringing that down. It came up out Q1, it came down in Q2, we're planning to have it again come down in Q3 and get it to a much more lower level. That's really -- that's really -- if we want to focus around the negative punch line of the quarter, and overall I think this was a very strong quarter for Honeywell. But if we want to focus on the negative, which is fair, that's really the punch line.

As we've got to get those inventory levels moderated to levels that our distributors are comfortable with, and we planned that for the first half. We've got a little bit more to do in Q3, and we'll see around Q4. Obviously, the variable we don't know is sales out, because if that goes up, then we have leftover product, if it goes down, we'll have more work to do. So short of -- so shorter answer is, yes, we're monitoring it and we're going to be very closely watching it here for, well forever, but certainly for the second half of this year.

Q - Joshua Charles Pokrzywinski {BIO 16605674 <GO>}

Great. Thanks. I'll leave it there.

A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

Operator

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

A - Darius Adamczyk {BIO 18702500 <GO>}

I want to thank our share owners for their trust and support of Honeywell. We have made great strides in 2019, but we still have a long runway to continue our progress. We are focused on continuing to outperform for our share owners, our customers, and our employees. This quarter marks the start of a new era for Honeywell in Charlotte, North Carolina, and I could not be more excited about what lies ahead for this company. Thank you all for listening, and have a wonderful, relaxing and safe rest of the summer. Take care, thank you.

Operator

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