# Q3 2020 Earnings Call

## Company Participants

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

## Other Participants

- Andrew Kaplowitz, Analyst
- Deane Dray, Analyst
- Jeffrey T. Sprague, Analyst
- John Walsh, Analyst
- Nicole DeBlase, Analyst
- Scott Davis, Analyst
- Steve Tusa, Analyst

## Presentation

### Operator

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

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

### Mark Bendza {BIO 21178179 <GO>}

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

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

This morning, we will review our financial results for the third quarter of 2020, share our guidance for the fourth quarter and full year 2020 and share some preliminary thoughts on 2021 dynamics. As always, we'll leave time for your questions at the end.

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

## Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Mark, and good morning, everyone. Let's begin on Slide 2. In the past few months, we celebrated two significant milestones. First, we celebrated Honeywell's 100-year anniversary as a publicly traded company, we are proud of our longevity and long legacy of innovation. Since 1920, we have navigated the Great Depression, World War II, numerous political changes, the Great Recession, the emergence of disruptive technology in every market we serve.

The reason that Honeywell continues to thrive in all these years, plain and simple has been our ability to adapt to an ever-changing world and to innovate. The long list of inventions from the last 100 years and our legacy in innovation endures today. For example, we're transforming the way our customers do business through Honeywell Forge, our cloud-based operating model, we are helping the world cope and to recover from the effects of COVID-19 pandemic, renew portfolio of healthy solutions.

In addition, we recently announced a breakthrough in the early era of quantum computing, the introduction of the system model H1, our next-generation quantum computer, which offers a proven quantum volume of 128, the highest measured in the industry. We also announced new users including DHL and Merck, which demonstrate the wide range of quantum computing use cases.

The second milestone we celebrated was our return to the Dow Jones Industrial Average. The S&P Dow Jones Industries announced in August. Honeywell was previously a Dow component from 1925 to 2008. Our return to the Dow 12 years later reflects years of consistent performance and our ongoing transformation to the world's premier software industrial company. We are proud and honored to rejoin the group of companies that comprise the Dow.

Both of these milestones served as timely reminder of our long legacy of innovation and performance. Throughout our over 100-year history, we have continuously risen to the occasion to new challenges, invented new technologies or committed to continue our legacy of innovation to shape the future of the next century.

Let's turn to Slide 3 to view our third quarter results. I'm very proud of our third quarter performance. We drove sequential improvements from the second quarter in sales, segment margin and adjusted earnings per share. Although the COVID-19 pandemic continues to impact several of our businesses and end-markets, we began recovery from second quarter lows through our laser focus on demand generation, operational execution, cost management and our COVID-related new solutions.

We delivered adjusted EPS of $1.56 in the third quarter, down 25% year-over-year, a 15 point sequential improvement from adjusted EPS of $1.26 in the second quarter, which was down 40% year-over-year. Organic sales were down 14% better than the more than 15% organic sales decline we expected in July and a 4 point sequential improvement from the 18% organic sales decline in second quarter.

Our cost plans delivered approximately $450 million of year-on-year benefit in the third quarter. These actions help us protect margins, limiting our decremental margins in the third quarter to only 29%, an improvement from 33% in the second quarter. Segment margin contracted 130 basis points, also an improvement from the 280 basis point contraction in the second quarter, driven by another quarter of margin expansion in both Honeywell Building Technologies and Safety and Productivity Solutions. We generated $758 million of free cash flow down from $1.3 billion in the second quarter.

As we discussed in July, we expected these cash flow dynamics, which were the result of working capital reductions in the second quarter and higher repositioning cash outflows and CapEx growth investments in the third quarter. In terms of capital, we deployed approximately $1 billion of cash to dividends, growth CapEx investments and share repurchases. Additionally, we announced our 11th consecutive dividend increase underscoring our commitment to returning value to share owners even during the current economic downturn.

Let's turn to Slide 4 to discuss our recent corporate development activity. I'm very excited about our recent announcement that we recently completed two acquisitions and established key partnerships to further drive innovation, strengthen our portfolio and invest in the future. First, we acquired Rocky Research, a technology leader specializing in thermal, energy and power management solutions. This acquisition was in our broad existing aerospace portfolio and positioned us with an advanced capability in the fast growing power and thermal management market, which is critical to meet the growing need for aircraft electrification, unmanned and autonomous aerial vehicles and related systems.

We also acquired assets from privately held Ballard Unmanned Systems that extends our presence into the hydrogen fuel cell market for unmanned aerial systems and strengthens our urban air mobility product portfolio. Ballard Unmanned Systems designs and produces industry-leading stored-hydrogen proton exchange membrane fuel cell systems that power Unmanned Aerial Systems or UAS.

In addition to the creation of the new business units, specifically dedicated to the UAS, UAM market earlier this year, this acquisition is yet another example of our commitment to invest in our UAS, UAM breakthrough initiatives in the growing UAS market. I'm also pleased that we announced a new partnership between Honeywell and Microsoft that will reshape the industrial workforce. Honeywell Forge will integrate with Microsoft Dynamics Field Service to provide cloud-based predictive solutions to building owners and operators with closed loop maintenance workflows, strengthening business continuity and improving operational efficiency. Moving forward, we're exploring more ways to bring innovation to customers by integrating Honeywell Forge solutions with Microsoft Azure Services such Azure Digital Twins or Azure Edge capabilities.

We also announced a partnership with Vertiv, a global provider of critical digital infrastructure and continuity solutions to improve sustainability, resiliency and operational performance for data center operations across the globe. We look forward to collaborating with Vertiv to offer integrated solutions that make it easier for data center operators to distill the mountains of data they pull from their equipment into actions that creates more efficient and environmentally-friendly operations. The first offering from our partnership will be an intelligent power management solution that features an energy resource management and supervisory control system in a single integrated platform.

In total, we expect these investments and partnership to drive over $1.2 billion of sales over the next five years. There's a lot of great progress and I'm pleased by the momentum in these areas.

Now, let me turn it over to Greg on Slide 5 to discuss our third quarter results in more detail as well as to provide our views on the fourth quarter.

## Greg Lewis {BIO 20594853 <GO>}

Thank you, Darius, and good morning, everyone. As Darius highlighted, we're very pleased with the third quarter. Our operational execution drove significant sequential improvements from Q2 and improvement versus our expectations in July, particularly in revenue.

While third quarter sales declined by 14% organically due to the effects of the pandemic, this was a 4 point improvement from the 18% organic sales decline in Q2 with sequential growth in all four segments. Importantly, we delivered strong double-digit organic sales growth in our defense and space, warehouse automation and PPE businesses as well as in recurring software sales in HCE. Lower sales volumes and mix in Aerospace and PMT drove 130 basis points of year-over-year segment margin contraction, but we once again expanded margins in HBT and SPS to drive 140 basis points of sequential margin expansion from the second quarter.

Our cost actions delivered approximately $450 million of year-on-year benefit in the quarter, which brought us to approximately $1.1 billion of savings year-to-date. We acted fast and early in this crisis and are now on track to deliver $1.5 billion to $1.6 billion of cost savings in 2020, up from our previous estimate of $1.4 billion to $1.6 billion.

Adjusted earnings per share was $1.56, down 25% year-over-year but up 24% sequentially from adjusted EPS of $1.26 in the second quarter. We recorded $124 million of repositioning in the quarter to fund cost savings initiatives for 2020 and into 2021, that repositioning funding was higher than the third quarter of last year driving a $0.04 headwind below the line and interest income was lower than the third quarter of last year driving a $0.05 headwind below the line. As expected, our higher adjusted effective tax rate resulted in a $0.05 EPS headwind, partially offset by $0.04 of EPS benefit due to lower share count from our share repurchase program.

This quarter, EPS is adjusted to exclude the impact of a non-cash $350 million pre-tax and after-tax charge associated with the reduction in carrying value to present value of reimbursement receivables due from Garrett in relation to Garrett's September 20, 2020 Chapter 11 bankruptcy filing, which we previously announced with the filing of our Form 8-K.

Our bridge from adjusted earnings per share in the third quarter of '19 to adjusted earnings per share in the third quarter of 2020 can be found in the appendix of this presentation.

We generated $0.8 billion of free cash flow in the quarter down year-over-year as we discussed in some detail on our Q2 earnings call. Lower net income, higher repositioning cash flows and higher growth CapEx investment pressured cash resulting in adjusted free cash conversion of 68%. We expect the repo and CapEx dynamics to continue into the fourth quarter as we continue to drive our savings programs and invest in growth. And we'll also have the impact of an additional payroll cycle as we've shared previously. We do expect sequential improvement in free cash flow despite that driven by working capital improvement mainly in inventory in the quarter.

In terms of capital deployment, we paid out $636 million in dividends and as Darius mentioned, announced our 11th consecutive dividend increase. We resumed opportunistic share purchases and invested $249 million in capital expenditures in the quarter, up approximately $60 million from the prior year. This included investments that we're making to produce N95 masks to support the COVID-19 relief efforts as we increased capacity in our warehouse automation business. Overall, we continue to execute commercially and operationally, while investing for the future, driving sequential improvements in sales, segment margin and EPS and setting ourselves up for the quarters to come.

Now let's turn to Slide 6, so that we can talk about our individual segment results. Starting with Aerospace, sales were down 25% on organic basis as the ongoing reduction in flight hours and slowdown in original equipment build rates impacted commercial aftermarket and original equipment demand. While the air transport aftermarket business was down 55% organically compared to 56% in the second quarter, however, our business aviation aftermarket was down 28% organically in the third quarter, which was a significant improvement from the approximately 50% decline we saw in Q2.

We continue to have strong demand for U.S. and international defense and space driving double-digit organic growth in that segment for the quarter. Segment margin contracted 250 -- 240 basis points year-over-year driven by lower commercial sales volumes and business mix, partially offset by cost actions to improve productivity, that was a 240 basis point sequential improvement from Q2 levels for Aerospace.

In Honeywell Building Technologies, sales were down 8% organically, a significant improvement from a 17% organic decline in the second quarter. The third quarter decline was primarily driven by lower demand for building management systems, security and electrical products and softness in building solutions due to delays in projects and energy businesses, some of which was the result of resource mobility constraints, particularly in India and the Middle East.

However, organic sales in our HBT business has improved sequentially from the second quarter creating positive momentum into Q4. Orders for the building solutions projects and energy businesses both grew double-digits organically in the third quarter. Additionally, the building solutions service backlog is up double-digits year-over-year driven by larger orders in the Middle East and Asia.

We are experiencing significant customer momentum with our portfolio of healthy building solutions. Our sales pipeline is over $600 million and we have secured orders around the world from Charlotte to Singapore. HBT segment margins expanded versus last year by 60 basis points in the quarter driven by commercial excellence and cost actions to improve productivity, which offset the impact of lower sales volumes.

In Performance Materials and Technologies, sales were down 16% on an organic basis, a slight improvement from down 17% in the second quarter. Process Solutions sales were down 12% organically, a 1 point improvement from 13% of unit decline in Q2 driven by delays in service and automation projects as customers conserve cash and volumes decline in smart energy and thermal solutions.

In UOP, sales were down 36% organically steeper than the 25% organic decline in Q2 driven by declines in gas processing investment, lower licensing and engineering and fewer catalyst shipments due to weakness in the energy end markets.

As expected, COVID-19 and oil price weakness continues to drive the late bookings in HPS and UOP. However, we still have not seen significant project cancellations and our backlog is approximately flat to the prior year. Organic sales in Advanced Materials were down 4% in the third quarter a 14 point improvement from an 18% decline in Q2 driven by lower volumes in fluorine products, partially offset by growth in packaging and composites. Auto-refrigerants returned to growth in the third quarter as the auto end markets experienced a rapid recovery.

PMT segment margins contracted 220 basis points in the quarter a 70 basis point sequential improvement as the impact of lower sales volumes and mix were partially offset by cost actions to improve productivity. Finally, in Safety and Productivity Solutions, sales were up 8% organically, a 7 point improvement from the 1% organic growth we had in Q2. All SPS businesses apart from gas sensing grew in the quarter with double-digit organic growth in Intelligrated and personal protective equipment leading the way and mid-single-digit growth in productivity solutions and services, which was driven by strong demand for scanning and mobility products.

Orders in SPS were up double-digits for the fourth consecutive quarter driven by personal protective equipment up approximately 150% year-over-year, continuing to position SPS well for the fourth quarter and into 2021. SPS backlog was up approximately 100% year-over-year to a new record high led by triple-digit growth in personal protective equipment and Intelligrated backlog. Despite some inefficiencies as we scale up capacity in the PPE space, SPS segment margins expanded 50 basis points in the quarter driven by productivity actions and commercial excellence.

As our new capacity comes up to weight, we expect favorable contributions to SPS segment margin. So overall, we finished the third quarter with sequential improvements in the second quarter and all businesses making progress. We grew double-digits in several businesses including defense, Intelligrated and PPE and due to prudent cost management and commercial excellence, we were able to limit our decremental margin to 29% overall, a 4 point improvement versus 3Q and expanded margins in two of our four segments.

Now let's turn to Page 7 and discuss our outlook for Q4. Throughout the pandemic, we remain committed to providing shareholders with a quarterly outlook that commensurates with our level of visibility in the environment we're in. We believe we have enough at this stage in the fourth quarter of 2020 to reinstate full financial guidance for the quarter. However, this guidance is predicated on having no material supply chain or end market disruption through the end of the year.

We will independently reassess the macroenvironment in January to determine the appropriate format of our 2021 financial outlook based on conditions at that time. As we proceed to the fourth quarter, we're actively monitoring the situation as many factors remain unpredictable, including COVID-19 infection rates, which we are seeing increases globally in, particularly in the last two weeks.

As of now, we expect organic growth in the fourth quarter in the range of down 11% to down 14%, driven by continued headwinds in commercial aerospace in UOP, partially offset by ongoing strength in defense, warehouse automation and PP&E and gradual recovery in the remaining portion of the portfolio. We expect segment margin in the range of down 30 -- down 10 to down 30 basis points, resulting in segment margins in the range of 21.1% to 21.3% in the fourth quarter, which would be another 100 plus bps sequential improvement as we gain leverage off our reduced cost base and drive commercial productivity.

The net below the line impact, which is the difference between segment profit and income before tax is expected to be between negative $50 million and positive $10 million in the fourth quarter, which includes capacity for an additional $50 million to $100 million of repositioning to drive productivity into 2021. We expect the effective tax rate to be approximately 19% in the fourth quarter and average share count to be approximately 710 million shares. As a result, we expect EPS between $1.97 and $2.02, down 2% to 4% year-over-year adjusted.

Now, let me provide a little color on the top-line. In Aerospace, we expect ongoing growth in defense and space, supported by stable government defense budgets and continued sequential improvement in business aviation aftermarket sales as flight hours improve. However, global flight hours will remain far below pre-COVID levels and we don't expect air transport flight hours to improve materially, impacting our air transport aftermarket sales.

Our commercial original equipment business will continue to be impacted by lower air transport OEM build rates and lower business jet demand due to the economic slowdown. In Building Technologies, we expect sequential sales growth driven by improvements in fire, security and building management systems. We expect access to customers sites to improve in the fourth quarter, driving sequential improvement in long cycle building solutions projects and orders.

Our healthy building pipeline, which is currently over $600 million is maturing nicely and we expect to continue generating pipeline and orders in the fourth quarter. In PMT, we expect ongoing challenges in UOP and Process Solutions as customer CapEx and OpEx reductions and lower production and refining volumes continue. However, we expect sequential sales growth in the products businesses and process solutions and Advanced Materials as these end-markets, including automotive continue to strengthen.

Finally in SPS, we expect another quarter of double-digit growth in Intelligrated and personal protective equipment. We continue to see record level demand for respiratory masks and other PPE. Our personal protective equipment and Intelligrated backlog remained up triple digits year-over-year and our total SPS backlog as a new all-time high, giving us confidence in the remainder of 2020 and into '21 for the business.

While macro conditions continue to put pressure on other SPS businesses, including sensing and IoT and gas sensing, we expect to see sequential improvement in the fourth quarter. So given these fourth quarter dynamics for the full-year, we expect organic growth in the range of down 12% to down 13% and segment margins in the range of down 60 basis points to 70 basis points, resulting in segment margin remains at 20.4% to 20.5% for the year.

The adjusted net below the line impact is expected to be between negative $185 million and $125 million for the full year. We expect the adjusted effective tax rate to be approximately 21% and the average share count to be approximately 711 million shares. As a result, full year adjusted earnings per share are expected to be between $7 and $7.05 down 14% year-on-year.

Now let's move to Slide 8, so that we can talk about some of our preliminary thoughts as we look into 2021. 2020 has clearly been a challenging year and it continues to be very dynamic as we all see real-time. Many uncertainties persist as we look into '21, so let's highlight how we're thinking about them.

Our current '20[ph] plan is that a COVID-19 vaccine receives approval and becomes available sometime in early 2021, allowing the global economy to largely reopen as the year progresses. We're also assuming fiscal stimulus remains supportive of the economy. We're currently seeing a second wave of infections in several regions, including the U.S. and parts of Europe, so we'll need to watch how that situation develops.

We're seeing no significant shocks to the economy from post-election circumstances and a stable geopolitical environment, particularly as it relates to U.S.-China trade relations. With this in mind, let's look at our key markets. In Aerospace, as the pandemic subsides and the global economy continues to recover, we assume passengers will begin flying again leading some modest improvement in global flight hours, that begins in the first half and accelerates slightly into the second half of the year. This will be record lead to improvements in our commercial aerospace business as aftermarket demand grows. We also expect stability in defense budget spending, supporting continued growth in our defense and space business though likely at a reduced pace versus our 2020 growth rates.

In HBT, we expect stability in non-wealth construction with a greater emphasis on retrofits, driving demand for building products and services, which should support continued demand for our healthy building solutions. In PMT, we're assuming improved macroeconomic conditions will drive moderate increases in oil prices in the second half of the year, leading to improved business conditions in refining, petrochemical and process automation in UOP and Process Solutions as the year progresses.

SPS will be a robust growth segment from the strength in warehouse automation and personal protective equipment as we execute delivery of our robust backlog. We expect segment margins here to balance with the challenge of higher mix in Intelligrated growth and the efficiency gains as our PP&E operations scale more efficiently.

From a total Honeywell perspective, we expect organic growth driven by year-over-year growth in all four segments as well as double-digit connected software growth in HCE. We expect our streamlined fixed cost base following 2020 cost actions to support a resumption in year-over-year margin expansion, while affording the opportunity to invest in growth, particularly in R&D and Connected Enterprise commercialization and the continuation of our supply-chain and Honeywell Digital transformations.

We expect to take advantage of our significant balance sheet capacity for M&A on share repurchases as well. We expect to reduce share count by a minimum of 1% again in 2021 and will be resuming buybacks as early as 4Q to do so. So overall, we've had some excitement for our end-markets and confidence in our continued operational execution, which will give us the ability to resume financial performance consistent with our prior framework in 2021. We'll provide more specific inputs once we close out the year.

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

## Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Greg. Before we wrap-up, I'd like to take a minute on Slide 9 to discuss an important topic.

Our commitment to a sustainable future, which is one of the key elements of our overall ESG story. At Honeywell, we believe our robust Environmental, Social and Governance or ESG framework enables our long-term success. Despite the unprecedented challenges we have faced this year, our commitment to our ESG principles has not wavered. To the contrary, I believe, our perpetual drive to strengthen the sustainability of our business and uphold the highest ethical standards has only fortified our resilience.

Our commitment to ESG is centered on the protection of our people and the environment, achieving sustainable growth and accelerated productivity and developing technologies to expand its sustainability capacity of our world. It's evident, we established robust 10-10-10 ESG goals to achieve by 2024 and we closely monitor progress against these goals. Additionally, starting this year, as part of our continued focus on sustainability reporting, we're reporting in-alignment with the SASB and TCFD framework.

As you can see on the slide, we have already worked extensively to reduce greenhouse gas emissions, increase energy efficiency, conserve water and proactively restore former operations or predecessor company sites to produce community assets. Honeywell is uniquely positioned to shape a safer and more sustainable future. We continue to invest and develop technologies that provide our customers with adaptable and efficient solutions for their safety, energy and environmental needs. In fact, we focus approximately 50% of our new product research and development on solutions that improve environmental and social outcomes for our customers. Some of our challenge -- some of the challenges our technologies address include sustainable refrigerants and aerosols, sustainable buildings and building safety, sustainable aviation and aviation safety, sustainable electric power, plant and personnel safety, sustainable freight and worker safety.

We have also recently created a new business in PMT called sustainable technology solutions to develop and commercialize new technologies that meet the growing demand for sustainable solutions, including plastics recycling, energy storage and renewable fuels. These technologies will advance environmental sustainability, contribute to the expansion of our technology portfolio and accelerate long-term growth.

Now let's wrap up on Slide 10. We continued to effectively manage through the ongoing challenges of this global pandemic in social and economic environment with a strong operational execution that is typical of Honeywell, driving sequential improvement from the second quarter in sales, segment margin and adjusted earnings per share. Our diversified portfolio, innovation culture and significant balance sheet strength continues to provide the resilience and ample capacity as we continue to set ourselves up for the recovery and beyond.

We delivered double-digit growth in several parts of the portfolio including defense and space, Intelligrated, personal protective equipment and recurring software. We are also continuing to invest in growth opportunities through M&A, partnerships and high return CapEx. We're gaining traction on our innovative solutions that address the emerging customer needs. We continue to align our cost base with the current environment and we are now on track to deliver $1.5 billion to $1.6 billion of cost savings in 2020.

I am proud of the improvements we drove in the third quarter. While effectively managing through the current environment, we have positioned ourselves well for the recovery due to the cost actions and growth investments. In addition, we remain committed to doing our part to ensure a sustainable future by protecting our people and the environment as well as the developing technologies and improve the overall sustainability.

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

### Mark Bendza {BIO 21178179 <GO>}

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

## Questions And Answers

### Operator

With pleasure, sir. The floor is now open for questions. (Operator Instructions) And we will begin our -- with our first question from Scott Davis with Melius Research. Please go ahead.

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

Hey, good morning, guys.

### A - Greg Lewis {BIO 20594853 <GO>}

Morning.

### A - Darius Adamczyk {BIO 18702500 <GO>}

Morning, Scott.

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

Good presentation and obviously, really good decrementals. But I just wanted to focus a little bit on the future and one of the real tools we have I think, Darius and Greg, are your -- is your balance sheet. What -- I mean, perhaps just update us a little bit on M&A and then, what's your appetite to getting more aggressive in purchases here -- share repurchases just given I think a disconnect between your stock price and perhaps the upside reality?

### A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think in short, I think the story isn't any different. I mean we were very pleased that we were able to complete a couple of recent acquisitions. Although they are not enormous, they are meaningful and as you can see the impact in the longer term for our business is actually quite significant. It's a billion dollar plus and I think, you always have to put these kinds of acquisitions in place that although may initially appear small, they're really building for the future and these two are very much in that category. I will also tell you that our pipeline is very robust at the moment probably in better shape than it's been in a long time.

M&A environment is getting better. There's some real practical challenges to doing M&A because -- especially for international M&A, I mean to conduct due diligence is quite a challenge. I mean with the quarantines in place and travel and as you can imagine, much of the due diligence team comes from corporate so they're not necessarily local. So that's creating some challenges but we're working through that and we're looking at some things that are domestic as well as international. So I think we're going to continue to do that.

As you've heard through our presentation today, we're re-committing to a 1% share count reduction at least for the upcoming year. So it's sort of we getting back to business and the business is improving, we drove nice I think sequential progress from Q2, we're going to drive again strong progress into Q4. Our decrementals are now going to get down into the low-20s, I think that that's a very good performance given the cards we've dealt and I think we're going to do what we always do, which is deliver for today but also deliver for the future and I think those two acquisitions we made earlier this month are indicative of that.



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

Okay, that's helpful. And then quantum is something that you guys have been talking about for the last year and that's a little over my head, but how do you get paid for that? What do you envision the pricing model is, is there any way to kind of identify a TAM around that or an opportunity that we can start to think about?

### A - Darius Adamczyk {BIO 18702500 <GO>}

I think the sort of the business models pricing value models are still evolving as you can imagine, I mean they can vary anything from -- we cover some part of the value that you create by solving the problem, which frankly is the model we would prefer although it's a little more challenging to implement, but to leasing time and those kinds of structures. And early on, we're going to experiment, we're going to try -- I think the thing that's exciting about our quantum effort is people. The first thing is, as you saw yesterday, we're making very strong progress in terms of technology and we believe we have the world's most advanced quantum computer.

The second part and I think that this is maybe even more important, we're gaining more and more customers because people are willing to keep -- to pay for these services. So you can sort of make all sorts of claims, but if you can't secure customers and revenue, which we're now starting to do, I think that's a pretty good testament of saying that we have something real and differentiated and continue to gain momentum on the commercial side.

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

Okay. Good luck, guys. Thank you. I'll pass it on.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Thanks, Scott.

## A - Greg Lewis {BIO 20594853 <GO>}

Thanks, Scott.

## Operator

And we will take our next question from Steve Tusa with J.P.Morgan. Please go ahead.

## Q - Steve Tusa {BIO 4278663 <GO>}

Hey guys, good morning.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Hey, good morning.

## A - Greg Lewis {BIO 20594853 <GO>}

Morning.

## Q - Steve Tusa {BIO 4278663 <GO>}

I think, looking at the sub segment data that your aftermarket -- Aerospace commercial aftermarket was up 18% something like that sequentially, can you just maybe confirm that? And then also just talk about how you may be leveraged to flight hours? I mean, you seem to be kind of bouncing off the bottom sooner than some of these other guys kind of leading off the bottom, if you will.

## A - Greg Lewis {BIO 20594853 <GO>}

Well, I think Steve we're down in the ATR aftermarket by again mid 50%, 55% I think which is similar to what I thought I heard from some of the peer groups earlier this week. And again, consistent with really Q2, where we were down 56%, so yeah, nominally it's up a little bit as you mentioned, but kind of on a year-on-year basis, it's pretty consistent with what we saw in Q2. That's -- obviously there's the upside on the BGA was nice as that was -- that went from down 50% to only down 28%, so we saw some nice sequential improvement on the BGA space.

## Q - Steve Tusa {BIO 4278663 <GO>}

Yeah, I mean I think whether they're coming from business jets or aircraft, I think revenues still matter but it was up -- your total commercial aftermarket was up 18% or something like that sequentially...

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah...

## Q - Steve Tusa {BIO 4278663 <GO>}

Correct?

## A - Greg Lewis {BIO 20594853 <GO>}

Steve, that's true.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, correct.

## A - Greg Lewis {BIO 20594853 <GO>}

That's right.

## Q - Steve Tusa {BIO 4278663 <GO>}

Okay, when it comes to the commercial aftermarket, the large stuff, how tethered is that to flight hours versus perhaps stuff that's a little more kind of inventory and kind of durable goods type of related stuff?

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah, so far we haven't seen any divergence in between our MSP growth, which is that's the power-by-the-hour that's directly tied and more of our shop business, our spares, et cetera, those right now are moving in very similar trajectories as far as year-on-year growth. So they have not diverged in any meaningful way so far.

## Q - Steve Tusa {BIO 4278663 <GO>}

Got it. So you guys should kind of lead out of this if this does continue to trend and you're kind of tracking flight hours in your large commercial aftermarket stuff. (multiple speakers)

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah, and when we talk about it. I mean really the growth in flight hours is obviously tied very closely to confidence, which waxes and wanes almost on a month-by-month basis based on the circumstances on the ground. So -- but yes, at this moment that's where we expect it to move pretty closely to see the movement in flight hours, but that's a little bit of why we're -- it's hard to really predict where that's going to go at the moment.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Just to maybe...

## Q - Steve Tusa {BIO 4278663 <GO>}

Got it.

## A - Darius Adamczyk {BIO 18702500 <GO>}

To add, Steve, I mean, yeah, we were expecting sort of very, very modest improvement in Q4 and then continued improvement on a sequential basis, but that does presume some medical solution starting to get rolled out early in 2021, which frankly I don't think is completely unrealistic based on what I've been reading and I think it gives our Aerospace business actually a really nice long runway for the next two to three years as things ramp up.

So given with the adjusted cost base, I think this is actually a pretty positive thing and I do want to note one thing about the cost because we've been going through something called Honeywell Digital automation and so on. This is not just kind of a stupid rip out of cost just to reduce it, much of what we've done is we just accelerated some of our initiatives that we're going to go do anyway. So I think that some of this is sustaining our brand, it's going to be offset somewhat by investments, but I think it's important to note that this is a bit of an acceleration from the initiatives that we were doing anyway.

## Q - Steve Tusa {BIO 4278663 <GO>}

Got it. And then just one last quick one on HBT. Watching a bit of those tech forum presentations over the last couple of weeks, seems like there is a lot of activity that building managers are trying to kind of figure out how to approach ESG and obviously IAQ for COVID and you guys seem to be kind of at the center of that. Obviously, some of the HVAC guys are making a bigger deal out of it and it wouldn't necessarily translate today in the revenues, how big is kind of the -- is the quotation activity there, is the -- can you quantify in a way what may be the front log of discussions are around customers coming to you and are the phones lighting up as people are asking you about how to kind of manage all this and just kind of curious as to how if activity has picked up there at all?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, I think about an open pipeline and $0.5 billion range in terms of some of our healthy buildings offerings, bookings in the kind of double-digit million range, mid double-digit with the potential to approach triple to $100 million-plus, hopefully by the end of the year. So it's accelerating, it's something that everybody needs. I mean most at least in the U.S. and some other parts of the world, people are not working in their workplace yet, but when they do come back, they do want to come back to a healthier environment. I think we're kind of hitting the spot there and the time to implement those solutions is now not after people come back. So we're hosting good activity and we're very encouraged by the early progress.

## Q - Steve Tusa {BIO 4278663 <GO>}

That $500 million did you say?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Pipeline, Steve.

## Q - Steve Tusa {BIO 4278663 <GO>}

Wow.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, that's right.

## Q - Steve Tusa {BIO 4278663 <GO>}

Okay, great, thanks. Thanks. Thanks. Appreciate it.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

## Operator

And we will take our next question from Nicole DeBlase with Deutsche Bank. Please go ahead.

## Q - Nicole DeBlase {BIO 16935492 <GO>}

Yeah, thanks. Good morning, guys.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

## A - Greg Lewis {BIO 20594853 <GO>}

Good morning.

## Q - Nicole DeBlase {BIO 16935492 <GO>}

So I just wanted to focus first a little bit on free cash. Totally I understand that you guys had made the commentary about 2Q being the high point of the year, but I mean, I guess I was surprised that inventory was actually up a little bit year-on-year. So is there opportunity to improve inventory as you move into 4Q and into 2021?

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah, that's exactly the way this plays out and what we discussed, as we mentioned in July. So we knew that we were going to get pressure from the several costs associated with all the retail that we're doing, we saw that it was almost $200 million in year-over-year increase and we talked about the capital, which again even in this environment, we're continuing to invest in CapEx, particularly in the PP&E and Intelligrated.

And then, yes, we talked about inventory is really the thing we got out, make some moves on. We've been -- we've got a long-cycle business in Aerospace, which has a pretty sizable quantity of inventory there, we're working through that now. We expect the fourth quarter to start seeing that come down, so that is exactly the playbook that we're running and as I mentioned in my comments that we do expect cash flow to get better sequentially from the third to the fourth quarter, but we also again will continue -- we talked about it even in the very beginning of the year, we're going to have a extra payroll cycle in December with the length of the year, which is called $150 million roundabout pressure.

So, yes, those are the dynamics we -- and then as we get into next year, we continue to -- working capital and cash is always the big focus for the company and we continue to make improvement in those areas and Honeywell Digital also is one of the aspects that will help us in that case.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, Nicole, just to add couple of things. Number one is Q3 was at or slightly even above where we expected. So there is no surprise here given the cash hit on the restructuring and the incremental investment in growth capital. So that's a key point. Second point is, as we get into Q4, although we had some headwinds from this extra pay cycles, we do expect our conversion to be over 100% kind of get back down on track. So -- and we indicated that Q3 could be challenged, because we knew the -- we're facing this extra headwinds in terms of cash for I think good reasons, I mean, one is investment in making the business more efficient and the second investment was in growth capital. So really not a surprise at all to us with where we ended our cash probably a little bit even up where we expected.

And last comment on inventory is, as you can imagine for a long-cycle business like Aerospace, as we kind of started tuning down our outlooks early in Q2 that takes a little bit of time to kind of get through the system and we expected to see more benefit in terms of inventory reductions as we head into Q4 and beyond.

## Q - Nicole DeBlase {BIO 16935492 <GO>}

Got it. Thanks, Greg and Darius. That's really helpful color. And then, for my second question, I just wanted to ask one more on M&A, clearly a very hot topic for you guys. I guess as we've moved through this pandemic and you have seen some kind of changes in what's going on by end markets and the outlooks, have your M&A priorities changed at all with respect to the areas of portfolio where you'd be interested in making deals. And I guess maybe why I'm a little focused is, does Aerospace become more attractive, opportunities start giving, what's going on in that end market?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. I mean, obviously on your last point, yeah, I mean, obviously some of the Aerospace assets are probably at different value points that we have been in a while. So from that perspective, it is appealing. What are -- we have our priorities dramatically change, I would say, it's probably too early to tell because I'm not really ready to declare as to what the post-COVID world would look like and I think we need to see a little bit of what that will look like but I mean in terms of our levels of interest, I mean they really vary across all our businesses, including HCE and we envision a scenario where we're going to augment into bolt-ons for all five of the -- of our businesses. So I wouldn't say, it's changed dramatically, obviously, the aerospace segment is a bit more approachable from a valuation perspective currently.

## Q - Nicole DeBlase {BIO 16935492 <GO>}

Thanks. I'll pass it on.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

## Operator

We will take our next question from Andy Kaplowitz with Citigroup. Please go ahead.

## Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Hey, good morning, guys.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Andy.

## A - Greg Lewis {BIO 20594853 <GO>}

Morning.

## Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Darius or Greg, achieving 22% to 23% decremental margin in Q4 would be another significant improvement from Q3's decremental. So could you talk about where you expect to see the most improvement, it seems like it may be in Aero given the improvement in Q3? And then, for all of Honeywell, what does it tell you about the carryover of permanent cost reduction that you've talked about before that 60% to 70% of the $1.55 billion into '21 and does it give you confidence in terms of recording incrementals that could be above the decrementals you reported at the bottom of the cycle?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I mean in terms of decrementals, I mean I think we're expecting those across the business because as you can imagine, a lot of our cost action occurred Q2 and during Q3. So you didn't see the full benefit of those actions until the quarter ended and that obviously rolls through into quarter four. So we have a lot of confidence in those decrementals dropping into the low-20s from that 29% that you saw this year. That's -- and I think we acted quickly, decisively and made those adjustment in our cost base, which is -- I think is really going to pay-off not just in 2020, but 2021 and 2022 as we really positioned the company well for the future, while we're still investing for the future, which I think is important because wouldn't need to do that in '21. Yeah. So, I think that the story is that we're very confident.

Andy, one other thing that I'll add before I turn it over to Greg here is, we are moving up a lot of capacity in our SPS business, we brought on a lot of capacity in Q3, we're bringing more on in Q4, both in expansion of capacity as well as really maximizing the efficiency of that capacity, because as you can imagine when you first bring capacity onboard, it is not an ideal efficiency in the first or second month, it takes a little bit of time.

But the good news here is that as we get into 2021 and I don't know when we'll be able to get substantial expansion SPS capacity, we're also going to be much more efficient in the process of -- in processing backlog that we have and already starting to see that even in this month, but we're still in the capacity expansion. And I'll turn it over to Greg...

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah.

## A - Darius Adamczyk {BIO 18702500 <GO>}

More color.

## A - Greg Lewis {BIO 20594853 <GO>}

So Andy, I mean, as the simple way, I would -- because I agree with Darius and I think we're going to get that improvement across the board. But the simplest way to think about it is, is we're going to get leverage in Q4. I mean, we are keeping our fixed cost base fairly close to flat sequentially from the third to the fourth quarter. We will start to see some cost increase as travel returns to some degree and so on.

And -- but with where the sequential improvement of revenue that we will see from the third to the fourth quarter, you're going to see I think leverage across the portfolio. And then, as it relates to your question on 2021, I think our position is still the same that $1.5 billion to $1.6 billion cost reduction that we are delivering on. We think 60% to 70% of that persists into 2021, which means, we're going to see something in the neighborhood of call it a $0.5 billion of a headwind year-on-year into '21 due to the temporary nature of some of those costs. And so, very much consistent with what we had laid out in the last two calls and as you know, we're very confident in our execution around those plans and actions.

## Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Very helpful. And then, Darius, obviously, it seems like you continue to face some pressure in PMT and specifically UOP. I think you said in UOP something year-over-year decline in Q3. Are you seeing any signs of improvement yet within UOP and HPS? And you did have good backlog at HPS coming into the downturn, I think you mentioned flattish backlog for this quarter, are you seeing any signs of projects moving forward again within HPS and what are customers telling you about the prospects for recovery in 2021?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, I think a couple of points. First one is, I think the part of the PMT is particularly challenges our gas processing business, because as you know the number of the rigs and so on that that's way down year-over-year and gas processing is down year-over-year.

The other thing to keep in mind is that, as the -- a lot of our customers were -- much of the oil and gas customers, as they announced our CapEx and OpEx cuts for the year, they are not likely to reverse those in 2020. I mean, so we really don't expect to see an uptick this year, we expect an uptick next year as some of those budgets get normalized and as you know, while we can't not invest in your infrastructure for too long, you're actually going to have of course, the other way where your demand is going to dramatically beat supply.

So we envision an incremental improvement and obviously, there is an alignment to the overall economic conditions here that so as the world returns back to a little bit more of the normal we would also should see that pickup in PMT. The thing that I am very encouraged by that we have not seen project cancellations. We've seen slide outs being push out but we have not seen cancellations. Frankly, when I was running the PMT business in '15 and '16 that we saw probably more cancellations back then than we are now. So I think that that's very encouraging and I'm bullish on PMT for 2021 and beyond.

## Q - Andrew Kaplowitz {BIO 15179203 <GO>}

Appreciate it, guys.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

## Operator

And we will take our next question from Jeff Sprague with Vertical Research. Please go ahead.

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Thank you. Good morning, everyone.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning, Jeff.

## A - Greg Lewis {BIO 20594853 <GO>}

Hey, Jeff.

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Good morning. Hey, just two from me. First, I guess for Greg. Just to clarify the comment about the headwind next year on return of costs. And I understand that's consistent with what you said, but I think today for the first time, we are getting the comment quote unquote strong incremental margins for 2021, I just want to clarify whether strong incremental margins net of that headwind, is that the message?

## A - Greg Lewis {BIO 20594853 <GO>}

The message is that we're going to return to margin expansion. And I would say see, that is including that incremental headwind. I think with the way we've positioned ourselves in a fixed -- from a fixed cost standpoint, Jeff, is we're setting ourselves up for the ability to grow margin and invest back in the business next year and I think that's -- Darius highlighted earlier, we're not going to try to have a blow out '21 and leave it all on the table. We've got some very important transformation initiatives that we want to make sure we're continuing to invest in and we've got some important investments to make in our breakthrough initiatives in quantum and HCE, et cetera. So we do expect to return to our margin expansion framework even net of that call it $0.5 billion headwind.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. Just to add to that Jeff and I'll just echo with Greg. So I think it's exactly right, I mean, we are -- we will drive margin expansion next year, that's -- there is no question about that. How much is still a little bit of a TBD and if that includes by the way the impact of those headwinds, so we are accounting for that. But we also have to invest in our future and I think, particularly some areas with R&D specifically, Aero, HCE, Honeywell Digital, those are areas where we definitely want to invest in and we're not through our planning cycle but what we're going to try to do is offer a very compelling return for our investors, while investing for the future. That's always the balance we're going to have and we're going to do both and we're pretty confident, it's going to be a very compelling year for our investors, while also, we're going to invest for the future.

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Well, that makes sense. And maybe somewhat related, Darius, you've mentioned, and I think Greg obviously going through this difficult environment was a window to accelerate restructuring and some other things that maybe were on the shelf that you would have done later. Given that, would -- should we expect kind of a more normal kind of restructuring year kind of -- from a kind of the -- kind of historical brute-force type of restructuring relative to what we saw in 2020 here?

## A - Greg Lewis {BIO 20594853 <GO>}

Darius, can we expect you to take that because I didn't quite get it. In fact, what kind of structures, Jeff?

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Yeah, no, just -- Yeah. No, I mean, the question is really just on kind of restructuring in the cost base itself kind of the normal kind of flow restructuring?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, yeah. I get it.

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah, I mean, yeah, so I mean, it's -- yeah, thank you.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. So I think, we're going to return to more normalized levels. I mean, yeah, this is -- obviously we pulled some things then that we were probably going to do later. We rationalized our cost structure, because frankly we had to. I mean we -- that's what we were facing early in Q2 and when we did -- we did do that. So I think as we look in 2021 and 2022, I mean, it's going to return to a little bit more of a normalized level.

But Jeff, as you know, this never is wholly exits our playbook, I mean in good times and bad, we'll always look for opportunities to be much more efficient. So yes, it's not going to be at the same level as this year, but we're -- we still are executing our ISC transformation, we're still executing Honeywell Digital, that's going to add a...

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

Got it.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah. So it's all going to continue to pay off in terms of productivity and efficiency. So hopefully that helps.

## Q - Jeffrey T. Sprague {BIO 1494958 <GO>}

It does. Thank you.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you.

## Operator

We will take our -- Go ahead, sir. My apologies. We will take our next question from John Walsh with Credit Suisse. Please go ahead.

## Q - John Walsh {BIO 20618716 <GO>}

Hi, good morning, everyone.

## A - Greg Lewis {BIO 20594853 <GO>}

Good morning, John.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Good morning.

## Q - John Walsh {BIO 20618716 <GO>}

I guess just wanted to follow back to the margin question here in Q4 and just make sure I understood the underlying comments, but if we look at where you've spent most of the restructuring dollars, this year it's been in Aerospace and PMT and if we look at Q3, that's where you had the largest kind of deltas from a pickup. Is that still where you would think to see a lot of the improvement in Q4, particularly in those two segments?

## A - Darius Adamczyk {BIO 18702500 <GO>}

Yeah, on the....

## A - Greg Lewis {BIO 20594853 <GO>}

Certainly, again, as I -- yeah, John, absolutely. I mean, I think, when you look at it, those are the ones where we spent the most repo for obvious reasons, that are the most challenge of the businesses in the portfolio. So yes, I would expect that that's where you're going to see it's been healthy improvements, but as I mentioned, we're going to see it across the board.

## Q - John Walsh {BIO 20618716 <GO>}

Got you. And then, maybe just a finer point on thinking about cash next year. You size that payroll, I don't know if you've spoken about CapEx plans yet into '21, but should we think of next year as kind of maybe those net and it's just net income growth and working capital blocking and tackling, or are there any other things to be aware of in the headwinds and the tailwinds column for next year particularly thinking about CapEx?

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah, so, we're still obviously in our planning stages for '21. As you said, if you think about CapEx this year, we're probably going to wind up spending and round about what we thought we were going to in the early part of the year before COVID even hit because our reductions in some of the discretionary areas we backfilled with the growth capital that was important for us to extend.

As we head into next year, it wouldn't surprise me if we spend capital at about the same rate plus or minus a bit, but again that's all subject to us concluding our planning. But I wouldn't expect us as we sit here today to see that as a materially different mover in the context sort of $5 billion to $6 billion of cash flow generator that we usually are. And so, those -- and then as I mentioned, working capital, we're always going to be driving our working capital progress and we would expect to continue to do that into '21. So we'll update you in 90 days with more specifics around some of the finer points around that as we complete our planning and complete the year.

## Q - John Walsh {BIO 20618716 <GO>}

Great, thanks for the additional color.

## A - Greg Lewis {BIO 20594853 <GO>}

Yeah.

## A - Mark Bendza {BIO 21178179 <GO>}

Steven, let's take one last caller.

## Operator

Absolutely, sir. We will take our final question from Deane Dray with RBC Capital Markets. Please go ahead.

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

Thank you. Good morning, everyone.

## A - Greg Lewis {BIO 20594853 <GO>}

Good morning, Deane.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Morning.

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

Hey, I like that last slide on the sustainable focus and ESG. One of the points that occurred to me, the 50% of your new product introduction investments fit the ESG classification and I was curious whether is that 50% a target or is it an outcome and what are the economics?

## A - Darius Adamczyk {BIO 18702500 <GO>}

No, that's not a target, that's where we are today. I mean, that is not aspirational that's currently where we are and I want to point out to something that's really, really important, which is we talked a little bit about on our script is the formation of a whole new business unit, the sustainability business unit within PMT, which really is going to help a lot of our customers really make the transition to sort of the new energy future, so I mean I think nobody is going to transition this in a month or a year or two.

But what we've done and what we're doing is, we're recreating a whole new sustainability infrastructure in PMT and really all our business units. To create a business structure, which is going to be much more sustainable aligned with the needs of the plot -- plan of the society, in general and I think it might be even the most needed in PMT where a lot of our customers are really looking at what the future of energy looks like and we want to be part of the solution to create that bridge.

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

Great, and just last question. And to the extent you can comment on it was hoping you could put this whole Garrett situation in context. This is such a small piece of the -- of your cash flow with a small piece of the capitalization, but it does get some headlines and I was hoping you might comment.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Sure. No, I think, your comment's right in terms of the overall value and so on in terms of Honeywell, I mean, this is sort of not that relevant. I think you probably saw some of this, we -- frankly, there is an offer out there, which is -- compare on for Garrett. We have -- we're confident we're going to secure majority of that cash flow. There is a superior offer on the table with couple of the partners we have out there. We don't believe there is quite a merit in the litigation that Garrett is trying to put forward and we're -- we have a level of confidence of preserving those future cash flows and a lot of this will still kind of be in motion here for the next few months, but we have a lot of confidence in what we're doing there and we think we're going to recover majority of that receivable.

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

Appreciate that. Thank you.

## A - Darius Adamczyk {BIO 18702500 <GO>}

Thank you, Deane. I'm pleased with the improvements we achieved in the third quarter compared to challenging second quarter. We are growing in areas not as impacted by the current pandemic, we're gaining momentum with the new growth opportunities by providing innovative solutions for customer needs. We remain focused on continuing to perform for our share owners, our customers and our employees in any environment. We are well positioned for the recovery with a balanced portfolio, track record of execution and a strong balance sheet.

Thank you for listening and please stay safe and healthy.

## Operator

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



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