ELLIOTT INVESTMENT MANAGEMENT L.P.
360 S ROSEMARY AVE, 18TH FLOOR, WEST PALM BEACH, FL 33401

November 12, 2024

Honeywell International Inc.
855 S. Mint Street
Charlotte, North Carolina, 28202

Dear Members of the Board:

We are writing to you on behalf of funds managed by Elliott Investment L.P. (together with such funds, "Elliott" or "We"). Elliott has made an investment of more than $5 billion in Honeywell International Inc. ("Honeywell" or the "Company"), making us the Company's largest active investor. Our position in Honeywell is one of Elliott's largest investments to date, reflecting our strong conviction in the unique value creation opportunity present at the Company today.

For over a century, Honeywell has been an iconic pillar of the American industrial complex, pioneering technologies that have had broad and profound impact. For decades, Honeywell's operating performance delivered outstanding financial results, benefiting investors and employees.

Honeywell remains a world-class company with market-leading assets. However, over the last five years, uneven execution, inconsistent financial results and an underperforming share price have diminished its strong record of value creation.

We believe these challenges have a clear cause and a straightforward solution: **The conglomerate structure that once suited Honeywell no longer does, and the time has come to embrace simplification.**

Our letter today outlines why we believe Honeywell should separate into two standalone companies – Honeywell Aerospace and Honeywell Automation – to create two sector leaders better positioned to thrive operationally, serve customers and employees, and create long-term value for shareholders.

As independent entities, Honeywell Aerospace and Honeywell Automation would benefit from simplified strategies, focused management, improved capital allocation, better operational performance, enhanced oversight, and numerous other benefits now enjoyed by dozens of large businesses that have moved on from the conglomerate structure.

In addition, we believe these new companies will each benefit from a clear and attractive investment narrative that will help remedy Honeywell's depressed valuation. As the work we present in this letter shows, we believe the market will generously reward the time and effort required to separate these businesses. In fact, **we believe a separation could result in share price upside of 51-75% over the next two years** – a remarkable improvement for any business, let alone a $150 billion industrial bellwether.

Our letter today is organized as follows:

I. **Our Investment in Honeywell**
II. **Honeywell Today**
III. **The Case for Simplification**
IV. **A Transformational Opportunity**
V. **The Path Forward**

Honeywell is a great company, and its performance as an investment should match. We are sharing these views with you, and the broader market, to draw attention to this unique and compelling value creation opportunity in the hopes of building a consensus for the best path forward.

I. Our Investment in Honeywell

Founded in 1977, Elliott is one of the oldest private investment firms under continuous leadership and manages approximately $69.7 billion in assets.[1] Our approach to investing begins with an extensive due diligence process. In the case of Honeywell, this included more than 200 conversations with former Honeywell employees and industry experts to refine our understanding of the challenges facing its various businesses. We engaged a leading management consulting firm to conduct commercial diligence, as well as an investment bank to help us assess all of the potential considerations of a business separation. We gathered insights from customers and fellow shareholders through extensive survey work, including commercial surveys to better understand customer ordering patterns, and investor surveys that revealed Honeywell investors' appetite for change. We have also engaged legal counsel to advise us on legal and structuring matters, as well as accounting firms to help evaluate potential financial and tax considerations.

Additionally, we have benefited from our significant experience in each of the specific sub-sectors most relevant to Honeywell, including as board members and operators. To cite a few specific recent examples: Within aerospace, an Elliott partner has served on the board of Howmet Aerospace for the past seven years; Elliott is also highly active in the energy sector, including as investors and owners of multiple upstream and downstream oil and gas companies; and earlier this year, in the building automation space, we worked constructively with Johnson Controls on its well-received oversight and portfolio changes. These experiences, among many others, provide us with the necessary breadth and depth to evaluate Honeywell and all of its constituent businesses.

Through our experience and diligence, we believe we have developed a strong understanding of Honeywell's complexities, challenges and opportunities. This effort has deepened our admiration for Honeywell, reinforced our appreciation of its global importance and underscored the urgency of restoring its success.

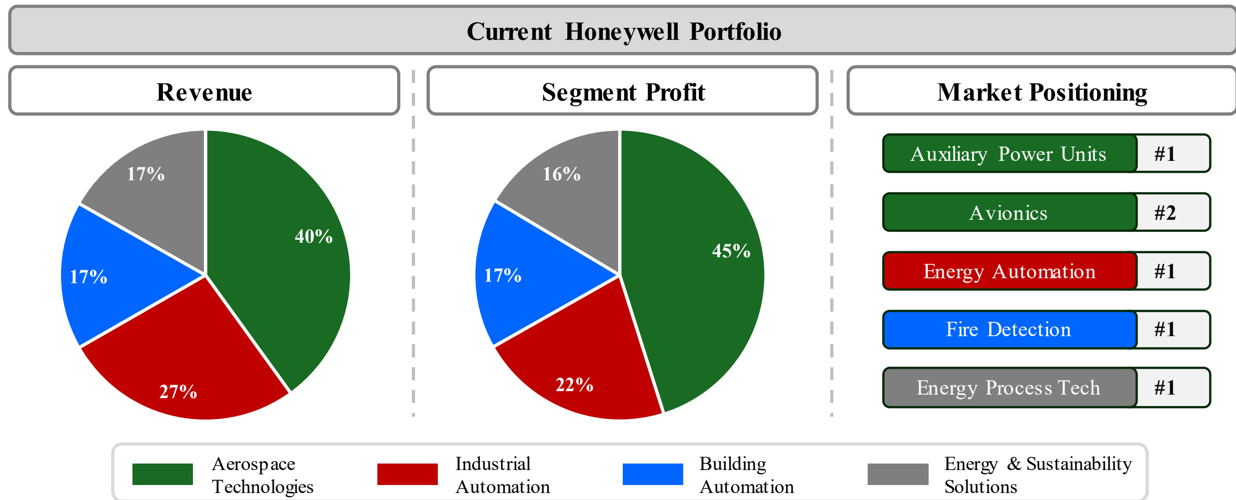
II. Honeywell Today

Honeywell is an iconic American company with a history spanning more than 100 years. While it has experienced significant evolution over time, Honeywell in its current form traces its roots back

[1] As of June 30, 2024.

to the 1999 merger of Honeywell and AlliedSignal. That combination created a complex, conflicted organization, which fell into further disarray after its proposed acquisition by GE in 2000 was ultimately blocked. From that challenged state, former CEO David Cote executed one of the great turnaround success stories in corporate history.

Years of Mr. Cote's portfolio-shaping and visionary leadership helped Honeywell secure "great positions in good industries," as he often put it. Today, Honeywell enjoys a broad portfolio of market-leading assets that span aerospace & defense, industrial automation, building automation and energy & sustainability solutions. Nearly all of these end markets are experiencing secular growth, with Honeywell holding leading market shares in each. The result is a collection of high-quality assets that each individually represent highly attractive businesses.



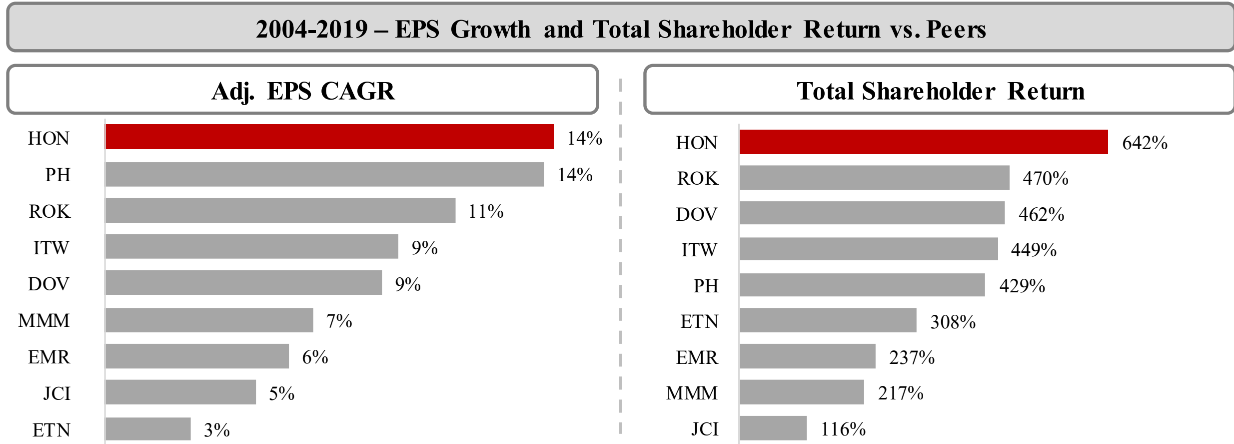
Source: Company filings. Financials presented as of Q3-24 LTM. Energy market classification defined according to GICS.
Note: Revenue and Segment Profit presented excluding Corporate.

Among Honeywell's collection of best-in-class businesses, Honeywell Aerospace stands out as its crown jewel. Against an industry backdrop of significant secular growth, Honeywell Aerospace is a top-five global commercial aerospace supplier with a broad offering of limited-life proprietary products across all major platforms, benefiting from a long tail of captive aftermarket sales. In the industry, Honeywell is known as a technology leader that has succeeded in balancing industry-leading R&D spending with near best-in-class operating margins.

Beyond Aerospace, Honeywell contains similarly impressive assets aligned with core global growth trends in automation and energy transition. This portfolio has been assembled over decades, resulting in a leading global installed base of Honeywell products across process automation, energy technology, and commercial buildings. In each of these markets, Honeywell owns proprietary intellectual property that drives efficiencies for customers while generating robust profitability and secular growth for Honeywell.

Buoyed by this strong collection of assets, Honeywell propelled itself forward for years with market-leading operational rigor and continuous improvement, driving consistent margin expansion and compiling an enviable track record of sustained execution. Prior to the last five

years, Honeywell's remarkable consistency drove the highest Earnings per Share (EPS) growth rate among its diversified industrial peers, as well as best-in-class shareholder returns.



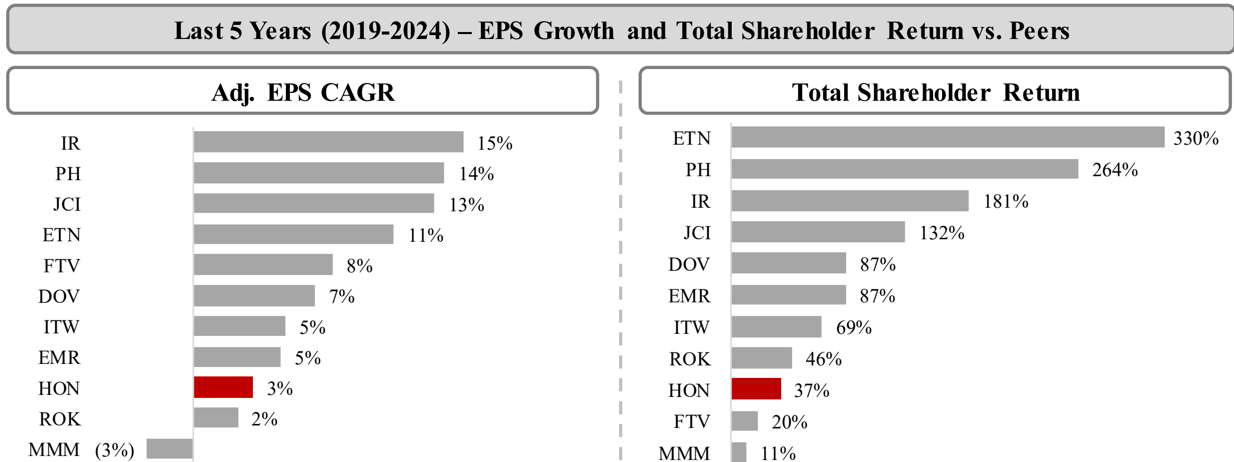
Source: Company filings, Bloomberg.

Note: EPS CAGRs adjusted for spin-offs. 2004 EPS reflects GAAP figures adjusted for one-time and other items. TSR calculated from 12/31/2004 through 12/31/2019.

As the chart above shows, Honeywell has spent the better part of this century performing not only as a top-tier company, but also as a top-tier investment. And to be clear, Honeywell remains a terrific company. But as an investment, the picture has changed meaningfully.

From Leader to Laggard

Once an operational powerhouse whose stellar financial results generated market-leading returns, Honeywell's stock has languished over the past five years. Since 2019, Honeywell's EPS growth has been at the low end of its peer set and, unsurprisingly, its shareholder returns have been equally disappointing. As discussed later in this letter, this underperformance is a direct result of a suboptimal corporate structure that has led to inconsistent operational execution, a diversified portfolio beset with numerous challenges and the lack of a cohesive investor narrative.



Source: Company filings, Bloomberg as of 11/08/2024.

Note: EPS CAGRs adjusted for spin-offs and material reporting changes. TSR calculated from 12/31/2019 through today.

Honeywell has now vastly underperformed all businesses except for 3M, which has struggled with substantial environmental liabilities, and Fortive, which recently announced a break-up as a means of improving its business focus and value.

Over the past five years in particular, Honeywell's share price has dramatically underperformed both its peers and the broader market. More recently, this underperformance has been particularly acute. In fact, the Company's share price has declined after *all six* of its most recent quarterly earnings, with three of these events ranking among Honeywell's four largest negative earnings reactions in the last 15 years.

> *"For a company that used to guide conservative and be able to manage whatever came their way to drive upside… missing a somewhat aggressive guidance and reducing margins in the meantime, shows how* ***this is not the same Honeywell****." (JP Morgan, July 2024)*[2]

The unfortunate result is that Honeywell's cumulative total shareholder return has underperformed benchmarks across virtually *all* time periods over the past ten years. This underperformance affects not only investors, but also current and former Honeywell employees, who hold a significant portion of their compensation and pensions in the Company's stock.

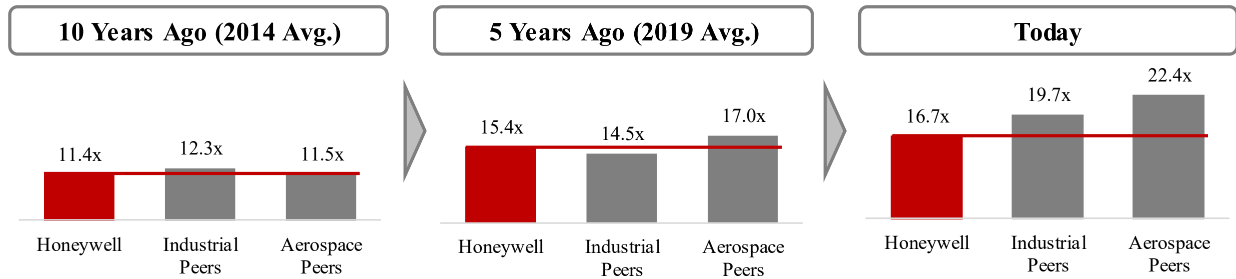
Relative Total Shareholder Return ("TSR")

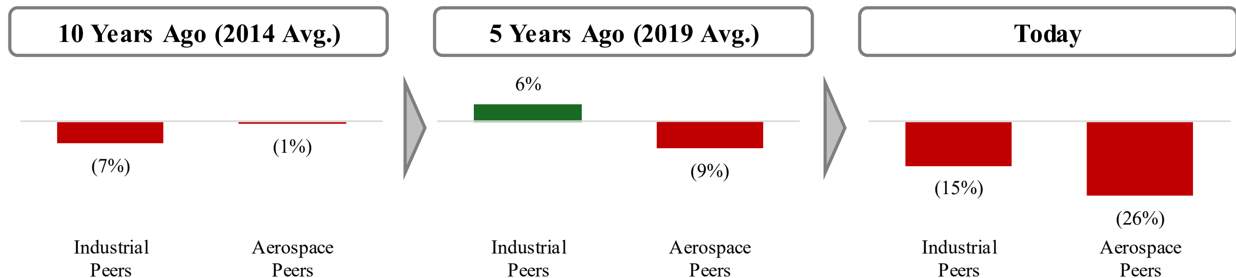
	Cumulative TSR through Period Ending 11/08/2024										
	YTD	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
1. S&P 500	**(21%)**	**(17%)**	**(53%)**	**(30%)**	**(52%)**	**(75%)**	**(71%)**	**(80%)**	**(77%)**	**(68%)**	**(61%)**
2. S&P 500 Industrials	**(20%)**	**(21%)**	**(43%)**	**(36%)**	**(57%)**	**(55%)**	**(51%)**	**(43%)**	**(31%)**	**(30%)**	**(7%)**
3. Proxy Peer Average	**(14%)**	**(14%)**	**(36%)**	**(39%)**	**(84%)**	**(49%)**	**(55%)**	**(29%)**	**(23%)**	**(35%)**	**2%**

Source: Bloomberg, as of 11/8/2024.
Note: Proxy Peers are BA, DE, DD, GD, CAT, DOW, LMT, ITW, RTX, ETN, SLB, MMM, EMR, PSX, GE, JCI, CSCO, MDT.

Most disappointing is that this significant underperformance has occurred despite a historically strong end-market for aerospace & defense, which accounts for nearly half of Honeywell's profit. While aerospace-industry valuations have expanded significantly in recent years, Honeywell's multiple has remained flat, and the Company currently trades at more than a 25% discount to its aerospace peers. In fact, Honeywell's multiple has even underperformed its industrial peers that *lack* significant aerospace exposure. Worse yet, this gap continues to widen.

[2] Emphasis added to quotes throughout this letter.

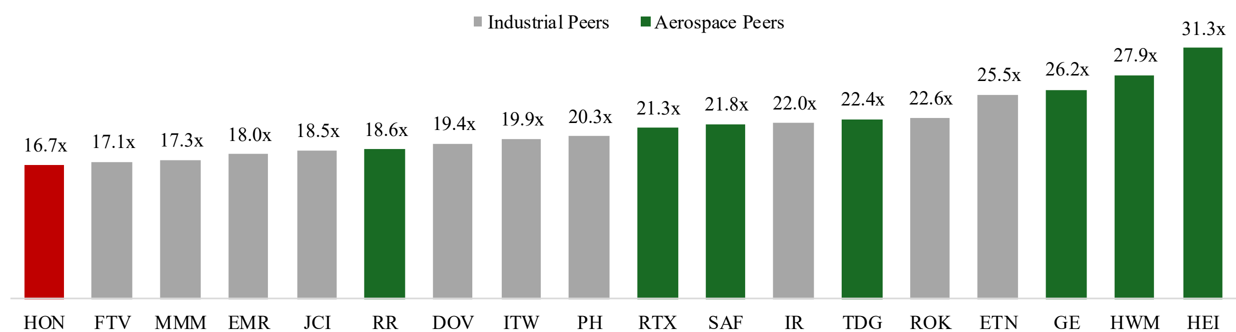




Source: Capital IQ, as of 11/08/2024. Today column shows multiple of 2025E EBITDA - CapEx.

Note: Industrial Peers reflects median of ROK, EMR, ITW, DOV, FTV, PH, IR, JCI, MMM, ETN. Aerospace Peers reflects median of TDG, RTX, GE, HWM, SAF, HEI, RR, and RTN pre-merger with UTX. GE and UTX included in Industrial Peers prior to their separations.

As the charts above show, Honeywell today trades at a material discount to peers and a historically cheap relative valuation. In fact, Honeywell now trades below every single one of its diversified industrial and aerospace supplier peers.[3]



Source: Capital IQ, Bloomberg as of 11/08/2024.

Note: Peer group reflects large-cap US industrial companies and large-cap aerospace suppliers. Multiples adjusted for recently announced transactions. European peers adjusted for IFRS accounting differences. RTX excludes FAS/CAS operating adjustment. MMM enterprise value includes estimate for PFAS liability of $20Bn based on equity research estimates.

These charts tell the story of why we are here. Under David Cote's leadership, Honeywell transformed from a poorly run business into a high-performing operation whose industry-leading

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[3] Note: Throughout this letter, we value Honeywell and its peers using an earnings-based methodology, specifically EV / EBITDA – CapEx. This approach accounts for Honeywell's relatively lower capital intensity, the differences in capital structure among peers, and is the best measure of approximating segment-level cash flow.

earnings growth delivered best-in-class shareholder returns. Today, the situation is quite different. What was once an operational turnaround story with meaningful room for improvement is now a mature business with an uncertain path to value creation in its current form. Flawless execution, accelerating growth and a compelling long-term narrative are no longer untapped sources of outperformance – they are table stakes. And achieving them is made significantly more difficult by Honeywell's status as one of the last remaining industrial conglomerates.

Of course, not every conglomerate is doomed to struggle with performance. There are examples of diversified, multi-line businesses that have succeeded, even over long periods of time. But each case needs to be evaluated on the merits, and success in the past does not ensure optimal performance in the future – especially when the menu of options for investors has evolved in ways that have made conglomerates less attractive as investments.

In Honeywell's case, the Company has struggled even with the table-stakes part of the equation in recent years, and the significant deterioration in its share price performance and valuation reflects a loss of faith among Honeywell's investors that it can overcome the limitations of its conglomerate structure. Fortunately, there is a straightforward solution at hand – a single step that can vastly improve this great company's likelihood of success and create substantially more value than any of the more incremental actions contemplated to date.

III. The Case for Simplification

Modern-day Honeywell is among the most sprawling, diversified multi-industry businesses around. Externally, Honeywell has 12 different public reporting lines, each of which could operate as a sizeable standalone public company. Internally, Honeywell maintains more than 700 different sites with ~100,000 employees spread across ~80 countries. Honeywell is a truly global company touching many parts of the economy. The breadth of the portfolio, coupled with the depth of expertise required to remain a leader in each of these industries, results in a company that is unwieldy for all parties – from management to investors.

> *"Over time the company has become **unwieldy, arguably uninvestable**." (Melius, October 2024)*

Honeywell's struggle with complexity is neither unique nor surprising; it is endemic to the conglomerate operating model. The issues that Honeywell is dealing with today have already been studied and resolved by many of the country's most important companies, including GE, United Technologies, Alcoa, Danaher, Tyco, Ingersoll Rand, Johnson Controls, ITT, Pentair, DuPont and countless others that have found success through simplification. There is abundant evidence that simplification results in better business performance, and the industrials landscape is rife with recent successful examples of former conglomerates that improved performance, enhanced valuation and generated immense shareholder returns through separation.

> *"**The trend toward a refined and simplified portfolio is a journey that has been underway for nearly two decades** ... GE's most recent breakup announcement could perhaps be signal of a near peak in the unwinding of the conglomerate structure…The spin-offs of OTIS and CARR from UTX are the **most recent example of companies freed from corporate shackles that fared better independently and repudiated the conglomerate model**." (Mizuho, September 2024)*

Against this backdrop of simplification initiatives undertaken by its closest competitors, Honeywell's complexity stands apart. Fortunately, Honeywell itself has acknowledged that excess complexity can be an impediment to business performance and shareholder value creation. To CEO Vimal Kapur's credit, he has initiated several incremental portfolio changes and has spoken in depth about working towards a *"simpler, clearer strategic focus and clearly defined Honeywell value proposition for our customers, investors and employees*."

Honeywell has recently taken some initial actions to simplify – spinning off Advanced Materials, for example. These are steps in the right direction, but they are not enough. They do not address the root of Honeywell's complexity issues – its status as a diversified conglomerate.

> *"[Advanced Materials] Spin makes sense, but is it enough?...While we welcome this news,* ***we think much more may be needed to move the needle.****" (UBS, October 2024)*

A Better Path: A Simplified Honeywell

Now is the time for Honeywell to chart a path to success similar to the one traversed by many of its peers – with its leadership team operating from a position of strength towards a simplified structure that enables greater focus and operational excellence. By separating into Honeywell Aerospace and Honeywell Automation – with the latter capturing what is today Industrial Automation, Building Automation and Energy & Sustainability Solutions ("ESS") – into two stand-alone, industry-leading companies, Honeywell would be best positioned to reverse its recent stagnation, improve operational performance, and deliver long-term value for shareholders.

The benefits of a separation can be broken down into two primary areas: A) an enhanced strategic focus that will allow each company to drive improved operating performance, and B) a set of simplified investment narratives that will deliver superior valuations.

Together, we believe these factors will drive both meaningful business improvements and substantial value creation, as demonstrated by many of the peers that have undertaken structural simplification. We will take each of the core benefits in turn, contrasting this better path with the status quo.

A. Enhanced Strategic Focus Will Drive Improved Operating Performance

Honeywell today suffers from operational issues that are common to conglomerates: specifically, its smaller businesses suffer from a lack of management attention, its larger businesses suffer from competition for investment dollars with other parts of the portfolio, and the whole conglomerate suffers from the difficulty of managing such a large and sprawling organization.

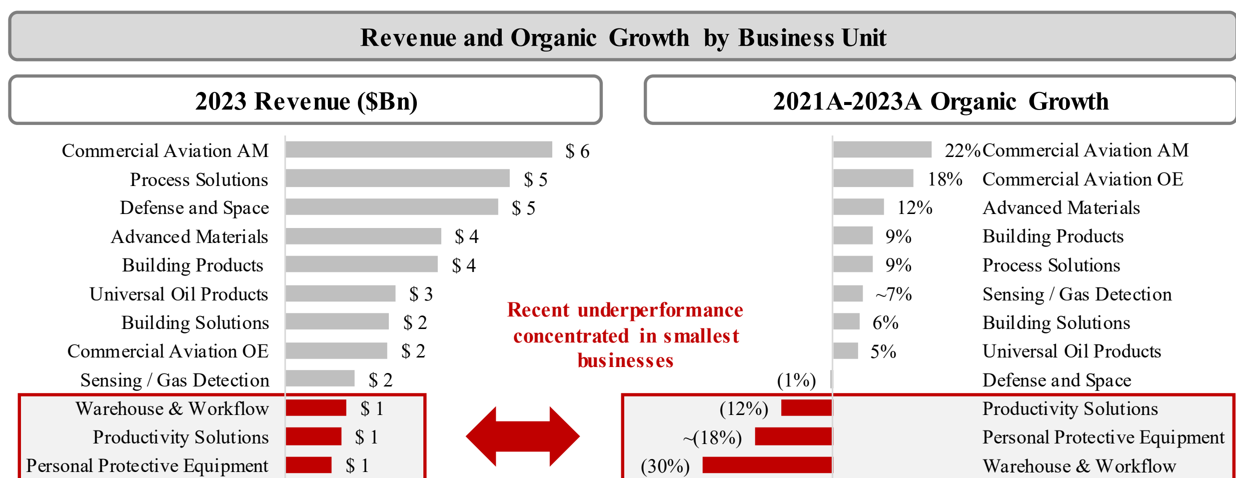
Honeywell's Streamlined Businesses Will Perform Better Post-Simplification

As highlighted above, the extreme complexity inherent in managing 12 large business lines leaves Honeywell's leadership constantly contending with multiple operational challenges at once. In the most recent quarter alone, Honeywell suffered from a series of challenges as wide-ranging as unexpected delays in Process Solutions and UOP, softer short-cycle sales in Industrial Automation,

discrete supply chain disruptions in Aerospace, catalyst delivery push-outs, uncertainty caused by geopolitical events, and a facility fire. The only certainty in a portfolio as complex as Honeywell's is that management will have to contend with many unpredictable problems at once, affecting the time and attention it can devote to the rest of the portfolio.

> *"Which leaves the elephant in the room – what does HON need to spin/sell in order to get this portfolio into something that is manageable? **Not just manageable for HON – and avoiding the 'whack a mole' trend we have experienced here – but manageable for investors?**"* *(Melius, July 2024)*

In recent years, Honeywell's operational issues have been most pronounced in the Industrial Automation segment (previously known as "SPS"). Specific areas of underperformance in Honeywell's SPS segment include Warehouse & Workflow Solutions ("Warehouse"), Productivity Solutions & Services ("Productivity"), and PPE, all of which have declined at a double-digit rate since 2021.



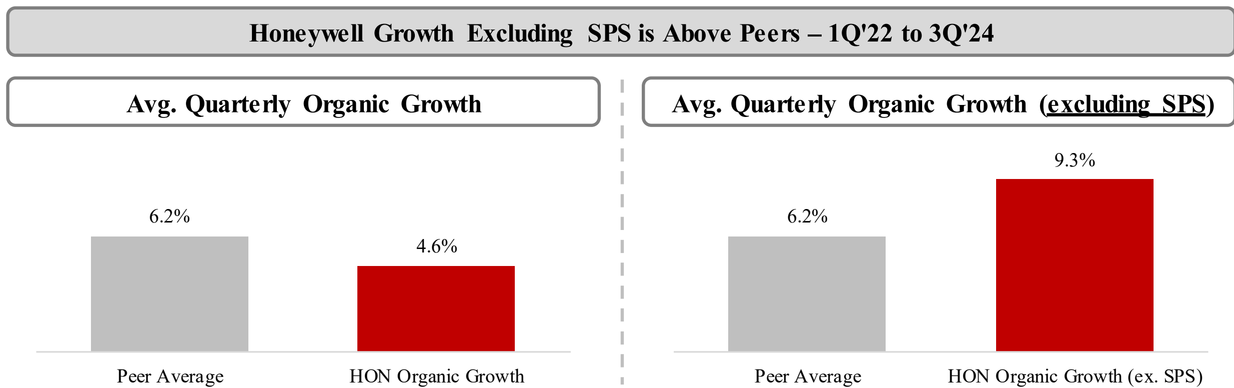
Source: Company filings, illustrative estimates. 2023 Sensing / Gas Detection revenue based on total Sensing and Safety revenue less estimated 2023 PPE revenue of $1.1Bn. Sensing / Gas Detection organic growth uses 2021 revenue estimate of $1.4Bn based on total reported Safety and Retail and Sensing revenue less estimated 2021 PPE revenue of $1.6Bn and estimated 2021 Footwear revenue of $200MM.

We believe that Honeywell's conglomerate model has contributed to this underperformance. Honeywell's products themselves are competitive – our survey work consistently highlighted that more than 90% of surveyed distributors across SPS's end markets rated Honeywell's products as in-line with or better than peers'. However, missteps in areas such as pricing tactics and sales execution have weighed on performance. This raises the question of whether a smaller organization, led by hyper-focused executives, could have navigated these issues more effectively.

The fact that these issues cropped up in the Company's smallest businesses is completely understandable given Honeywell's current structure. How can Honeywell's corporate leadership dedicate the same amount of mindshare to its smallest businesses – which each amount to ~3% of revenue – as the CEOs of pure-play rivals who devote 100% of their focus to maximizing the value of their companies? Why would Honeywell's management prioritize the "long tail" of its smaller businesses when its largest businesses rightly dominate its attention?

In fact, former Honeywell CEO Darius Adamczyk described this dynamic quite well in 2017: "*I think today, we're in roughly, call it, 7 to 9 end-markets depending upon how you think about it. And some of them are very small that, frankly, don't move the needle that much… And that's a factor, right, because I want my leadership focused on things that matter. And even smaller businesses that you'd say, 'Well, okay, but that doesn't move the needle either way.' It's true, but I want the focus from my management teams on things that matter and smaller things sometimes can be a distraction.*"

Warehouse, Productivity and PPE are small businesses within Honeywell's portfolio, amounting to less than 10% of total revenue combined. But the magnitude of the underperformance in these smaller units has been pronounced enough to constrain Honeywell's overall growth, and it has weighed heavily on the narrative of what has otherwise been a strong growth story.



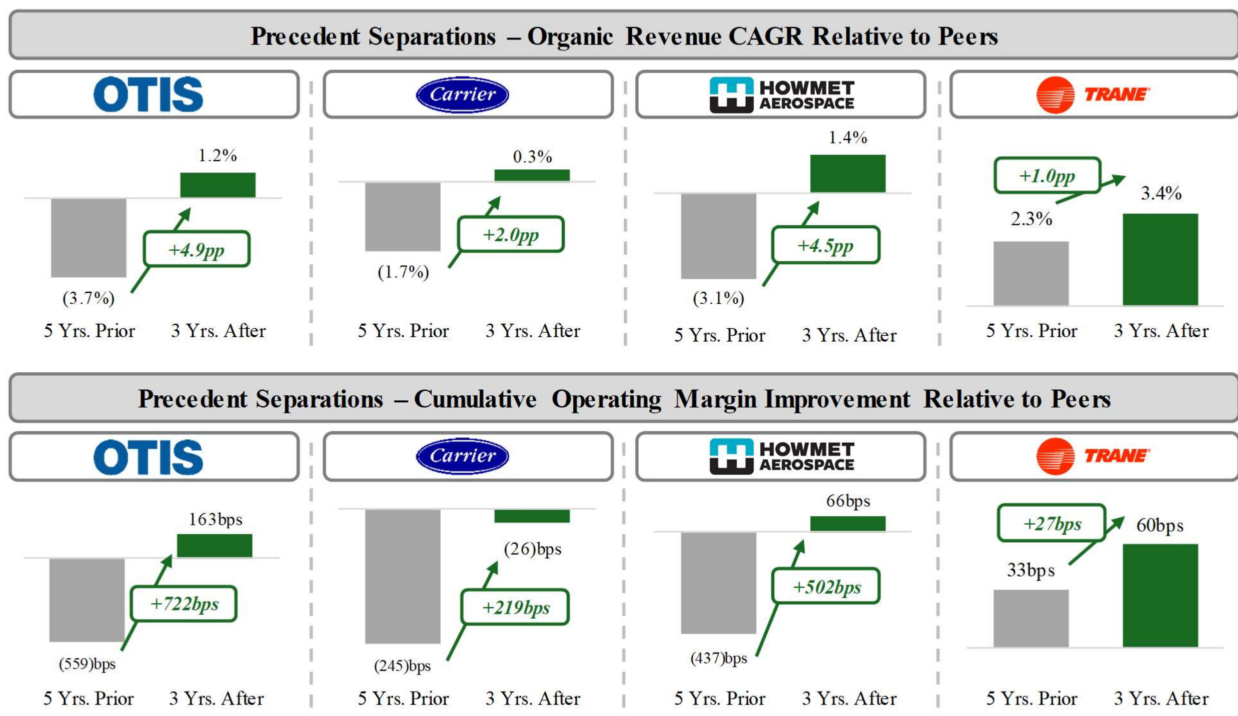
Source: Company filings.
Note: Industrial Peers include ROK, EMR, JCI, DOV, ITW, IR, FTV, ETN, MMM, PH.

> *"HON's organic growth has only outperformed MI/EE peers in two of the last eleven years – **and we believe that the most obvious reason for this is the company's conglomerate structure,** which has become rare in our coverage universe." (Deutsche Bank, April 2024)*

Fortunately, many of the drivers of this underperformance are addressable, and we believe that as a more singularly focused company – separate from Aerospace – Honeywell Automation will be best positioned to focus on improving its areas of weakness and driving better execution. While each situation is unique, the recurring narrative that has played out following the simplification of Honeywell's peers has been one of smaller, more agile organizations achieving vast operational improvements over the performance they delivered within a conglomerate structure.

> *"You may ask, **why does being a pure-play matter**? We've highlighted five reasons why being a pure-play matters and I'll focus on two. **First, we will continue relentless reinvestments to fuel market-leading innovation**. Our purpose-driven strategy is 100% focused on driving sustainability … **Second, we've developed, refined and strived to optimize our business operating system** over the past 10 years since we acquired the Trane HVAC business in 2008… **[the transformation of the company] enables a step function improvement in our ability to continue to deliver innovation and growth and margin improvement simultaneously over the long term for shareholders**." (Michael Lamach, CEO of Trane, December 2020)*

We can see these operating improvements at work at other companies that have simplified into more streamlined entities. We observed a pattern of improved operating performance across almost every comparable example we evaluated, with a few notable precedents below:



Source: Company filings.

Note: Peer sets include OTIS - Schindler, Kone; CARR & TT - Lennox, Allegion, JCI (Buildings); HWM - Hexcel, Woodward.

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*"Listen, **I'm really pleased with our performance since spin. We're a more agile company. We're a focused company. We're executing on our strategy, and I think we're seeing a pace that just wasn't inherent in a conglomerate.**" (Judy Marks, CEO of Otis, September 2022)*

Simplification Will Reduce Honeywell's Competing Investment Priorities

Competition for fixed investment dollars across a conglomerate's portfolio creates challenges for both organic investments and M&A. Such diversified organizations often suffer from suboptimal R&D allocation, as competing priorities and internal frameworks can hinder the efficient allocation of investment dollars. Over time, this dynamic can erode the competitive position of certain businesses – especially those competing with pure-plays.

In Honeywell's case, its underlying business units not only compete with one another for investment allocation, but also have to compete against broader corporate initiatives. For example, consider Quantinuum. While we make no judgment on Quantinuum itself, it is reasonable to question whether Honeywell's investing in quantum computing is a distraction – in either investment dollars or management mindshare – from its core businesses.

A pure-play Honeywell Aerospace, for instance, would be unlikely to pursue such an ambitious venture outside its core focus. By contrast, Honeywell's pure-play competitors enjoy a distinct advantage, as they can direct all investment into their core businesses without having to contend with this kind of internal competition. A separation would sharpen Honeywell's focus, enabling a more efficient allocation of resources toward its core business priorities.

> *"As I've gotten into the details, what I've learned is that ex-Solventum R&D investment for core 3M, which is running about $1 billion per year, or about 4.5% of revenue,* ***has been flat nominally over the past five years and down on a real basis, as the focus was on investing in and strengthening the Health Care business****." (William Brown, CEO of 3M, July 2024)*

In addition to competing internal priorities, there is also a natural tension between allocating inorganic investment to Honeywell Aerospace, where Honeywell already has a broad portfolio, versus investing in smaller segments to increase diversification and promote portfolio balance. We believe this helps explain the historical lack of M&A at Honeywell Aerospace, despite generating Honeywell's greatest profits and garnering its highest valuation. Over the past two decades, Aerospace generated 43% of the Company's cumulative profit but received only 10% of the Company's M&A dollars. At the same time, several of its competitors, including Transdigm, Heico, Parker-Hannifin, Safran, and others – have created significant value through M&A. We question if the lack of M&A at Honeywell Aerospace is illustrative of missed opportunities stemming from Honeywell's conglomerate structure.

> *"I think the biggest differentiating factor is that we have full access to our own cash flow and working capital. And the significance of that is that these businesses have tended to be underinvested in from a capital deployment relative to M&A in the last 5 to 8 years ...* ***The opportunity for us to spend that on value-accretive M&A is going to be incredibly impactful.****" (Jennifer Honeycutt, CEO of Veralto following its separation from Danaher, November 2023)*

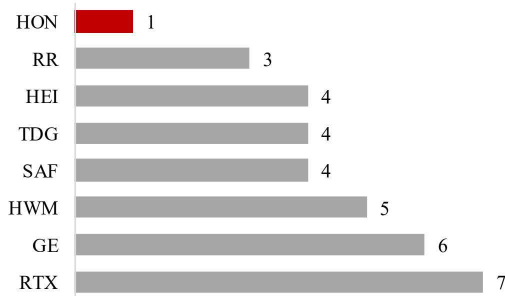
All of Honeywell's Businesses Will Benefit from More Focused Oversight

As separate public entities, Honeywell Aerospace and Honeywell Automation would benefit from dedicated boards with more tailored experience as well as enhanced management focus and alignment.

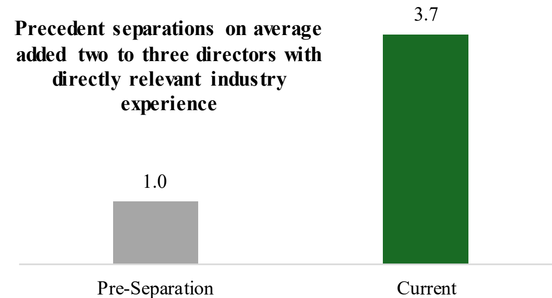
For example, only one of Honeywell's directors possesses Aerospace experience (specific to airlines), despite the importance of the Aerospace business to Honeywell. This lack of industry-specific expertise is common among conglomerates, whose boards typically include fewer directors with specialized knowledge for each division. However, when conglomerates restructure, the resulting pure-play companies often strengthen their boards by adding directors with relevant expertise, leading to overall enhancements in strategic oversight.

Separation Enables Focused and Dedicated Oversight

Number of BoD Members with Aerospace Experience Across Aerospace Peers



Average Number of Independent Directors with Directly Relevant Industry Experience



Source: Company filings.

Note: Precedent separations include OTIS, CARR, GE, GEHC, GEV, TT. Excludes RTX and IR due to mergers concurrent with separations.

> *"Speaking of the team, speaking of alignment, **one of the other benefits that we were very keen to realize in the spins is the creation of 3 focused Boards chock-full of domain expertise, fit for purpose in Healthcare, Aerospace and in Energy.**" (Larry Culp, CEO of GE, March 2024)*

In the area of management focus and retention, consider that Honeywell's business leaders currently have only 40% of their short-term incentive compensation and less than 20% of their long-term incentive compensation directly tied to segment performance. Meanwhile, their equity awards are granted in Honeywell stock, which they have limited ability to influence given the breadth of the Company. By contrast, at pure-play businesses, each management team's compensation is more directly tied to the performance of its specific business, leading to greater alignment and ability to recruit and retain top talent.

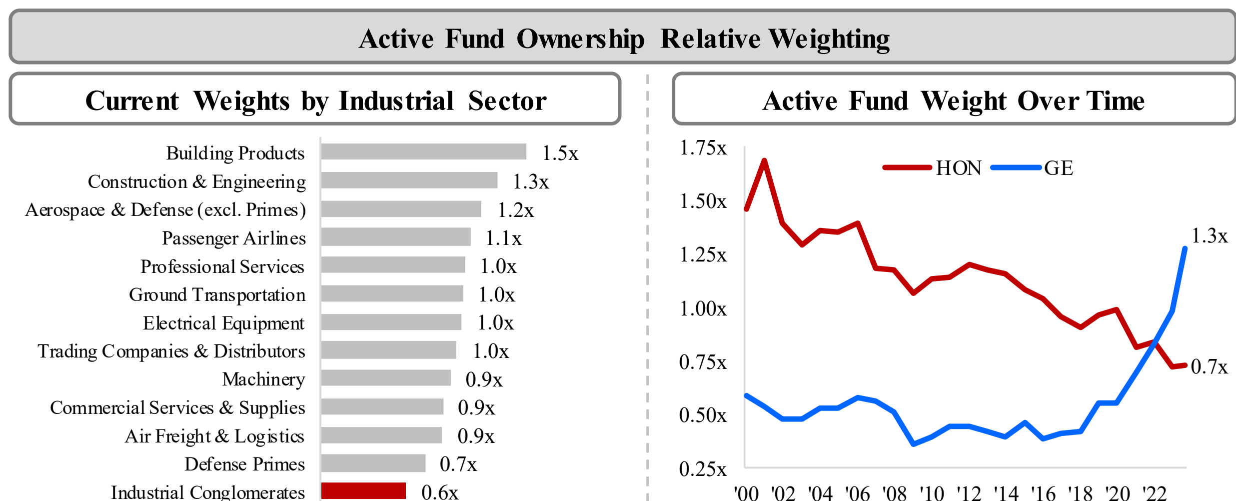
> *"**If you think about a spin, what does it do right away? It attracts great talent** ... If I take Wayde McMillan, my CFO, who was a public company CFO before this job, if you would have called him and said, 'Hey, why don't you come and run the Solventum sub-business of 3M and you can be a Vice President of Finance, he would just hang up the phone." (Bryan Hanson, CEO of Solventum, March 2024)*

B. A Simplified Investment Narrative Will Drive Superior Valuations

In an earlier era, conglomerates served a less sophisticated investor base by providing investment diversification. The idea was simple: With just one ticker, an investor could gain exposure to numerous end markets at once, achieving stability without complex portfolio construction.

Today, however, the investment landscape looks far different. Investors are now far more sophisticated, and with the rise of ETFs and indices, they can easily diversify on their own – targeting specific end markets where they want outsized exposure or constructing their own diversified portfolios. No longer do investors need, or even want, management teams to handle that allocation for them.

This shift in investor preferences is most evident in how capital is allocated between conglomerates and pure-play businesses – in effect, how investors "vote with their feet." Active fund managers' weighting towards industrial conglomerates is now at a multi-decade low, and by far the lowest of all S&P500 Industrial sectors. At the same time, observing the relative fund weightings of Honeywell and GE since 2000 is instructive. While GE was under-owned by investors for decades, its recent simplification has led to a dramatic re-weighting. On the other hand, institutional ownership of Honeywell has been in a long-term trend downwards.



Source: FactSet data on fund-level ownership of current S&P 500 Industrials sector constituents, excluding index funds and ETFs. Weights are share of fund ownership divided by share of market cap by industry.

> *"Very simply, HON is a complicated business and **conglomerate models are getting clear discounts vs. companies with greater end market focus**." (UBS, October 2024)*

As investor preference has shifted in favor of pure-play businesses, the theory that a conglomerate provides insulation from the vagaries of the business cycle has given way to the reality that underperformance in one part of a conglomerate today simply drags down the narrative of the whole. In many ways, the very diversification that once made conglomerates attractive has diminished their appeal.

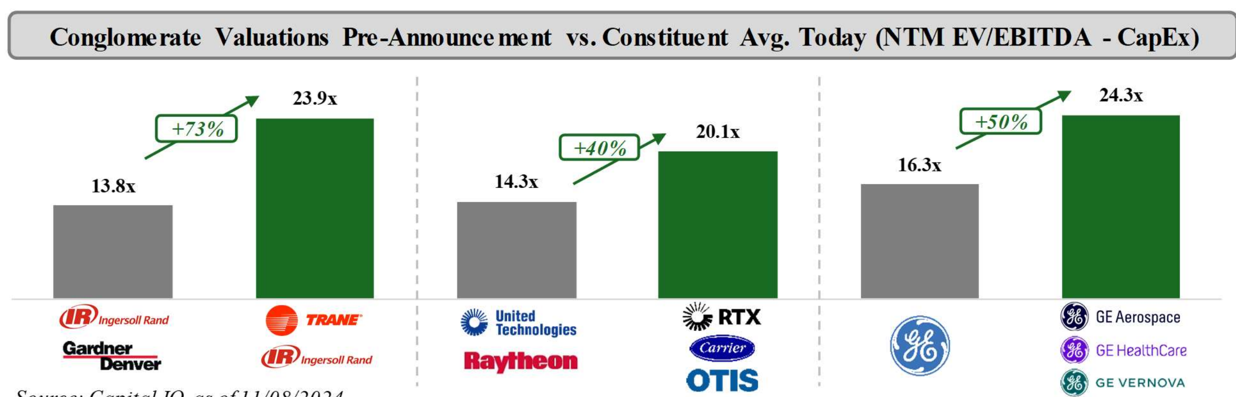
In addition to weighing down consolidated financial results, the struggles of underperforming businesses tend to overshadow other parts of the portfolio. Today, for instance, the business line with the most pronounced underperformance is Warehouse, the most challenged business within SPS. Despite representing just 3% of sales, Warehouse is raised by analysts on earnings calls more frequently than Process Solutions and UOP combined, despite these businesses being more than eight times its size. As Barclays noted in October 2023, *"SPS discourse dominates the stock."*

This dysfunctional dynamic creates a "least common denominator" effect, where investors' perceptions of Honeywell are only as good as the Company's worst-performing segment. In a company with 12 disparate reporting lines, there will likely always be an underperforming business that serves as a valuation overhang.

"HON shares have chronically underperformed as EPS growth has lagged and better opportunities emerged in pure play names. HON continues to execute well and has strong margins and competitive positions, but ***its diversification is working against it as investors focus more on whatever is wrong or lagging instead of what is good and leading.****" (Vertical Research Partners, July 2024)*

With this in mind, it is no surprise that Honeywell today is valued at a material discount to its peers. In fact, as shown previously, it has the lowest valuation of any company in its peer set, despite its outsized exposure to the high-value aerospace sector.

Fortunately, many conglomerates in similar situations have been able to remedy their valuation discounts substantially through simplification. GE, United Technologies and Ingersoll Rand have all recently demonstrated the magnitude of business outperformance and value creation that can follow separation. All three separated into two to three more focused assets that subsequently achieved operational outperformance due to greater end-market alignment and agility, which in turn was rewarded with a dramatic value re-rating driven by a simplified narrative and greater investor appeal. When comparing each conglomerate's valuation at the announcement of separation to the valuation of its component averages today, the uplift becomes starkly apparent.

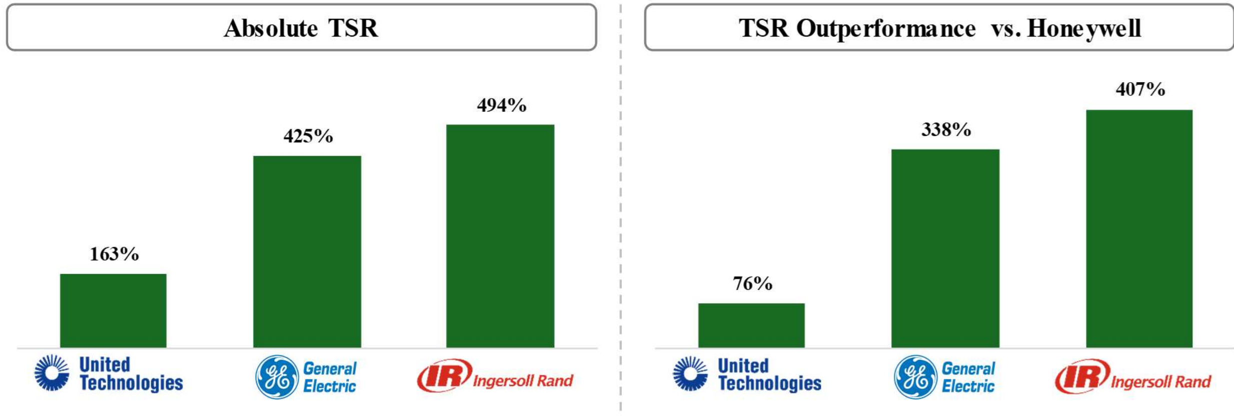


Source: Capital IQ, as of 11/08/2024.

Note: Conglomerate multiples shown as of date before simplification announcement (4/29/2019 for IR, 2/20/2018 for UTC, and 11/8/2021 for GE). Constituent average reflects current weighted average multiple of the individual pieces today.

Putting it Together

The combination of these two dynamics – improved operating performance and enhanced valuation – has created a substantial amount of value for investors. Since simplifying their previously sprawling structures, all three of the former conglomerates mentioned in the section above have delivered outstanding shareholder returns.



Source: Equity research, Bloomberg as of 11/8/2024.
Note: TSR shown from 1/1/2019 through 11/8/2024. For each peer, TSR reflects returns of parent entity pre-separation and returns of conglomerate package post-separation.

> *"The relentless sector trend of "Urge to Demerge" has transformed most Multi-Industry portfolios over the past five years. Prior to the COVID downturn, **the Multi-Industry trend had been in a relentless 'urge to demerge', 'addition by subtraction', and portfolio simplification, with the market generally rewarding higher multiples to more pure-play entities**. Portfolios are arguably more simplified today than ever before, and **there is really only one remaining large conglomerate that has not gone down the breakup path – Honeywell**." (RBC, April 2024)*

IV. A Transformational Opportunity

There is a tremendous opportunity for value creation at Honeywell. The unique combination of attractive assets, operational underperformance, a significant valuation disconnect and an actionable pathway for value realization creates the potential for exceptional upside. It is this opportunity that led us to make a multi-billion dollar investment in Honeywell.

In order to realize its full potential, we are recommending that Honeywell pursue a separation of Aerospace and Automation. While a transaction could take a wide range of potential forms, Honeywell is in the enviable position of possessing two industry-leading businesses – Aerospace and Automation – in attractive end markets and with substantial scale. Honeywell Aerospace would be a top-five global aerospace supplier, while Honeywell Automation would be a large-cap multi-industrial with annual revenue of nearly $20 billion.

A Separation is Actionable. Structurally, both businesses are already largely independent and fully capable of thriving on their own. The operations of Honeywell Aerospace are already functionally separate; the business has its own management team, physical headquarters, ERP and other technology systems, manufacturing facilities, detailed financial reporting systems, go-to-market organization, product development and validation team, and supply chain. Some back-office functions and minor inter-segment sales (e.g., sensors) are shared, but these are small in magnitude and easily addressable.

Operationally, Honeywell has long instilled a level of immense discipline throughout its organization. And because the ~100,000 employees who form the foundation of the Company's iconic Honeywell Operating System will be the same ones shepherding its businesses post-separation, their fundamental mindset of operational excellence will ensure continuity. In fact, similar to all of the precedent separations cited above, we would anticipate that operational performance improves as part of a more focused and dedicated company.

Financially, both businesses would be ~$100 billion entities, with robust financial profiles, investment grade credit ratings and significant capital availability. Finally, we recognize that a separation will take time and incur costs. In our view, the one-time cash costs of separation and any ongoing standalone costs will be *vastly* outweighed by the ongoing operational and valuation benefits of separation, as quantified below.

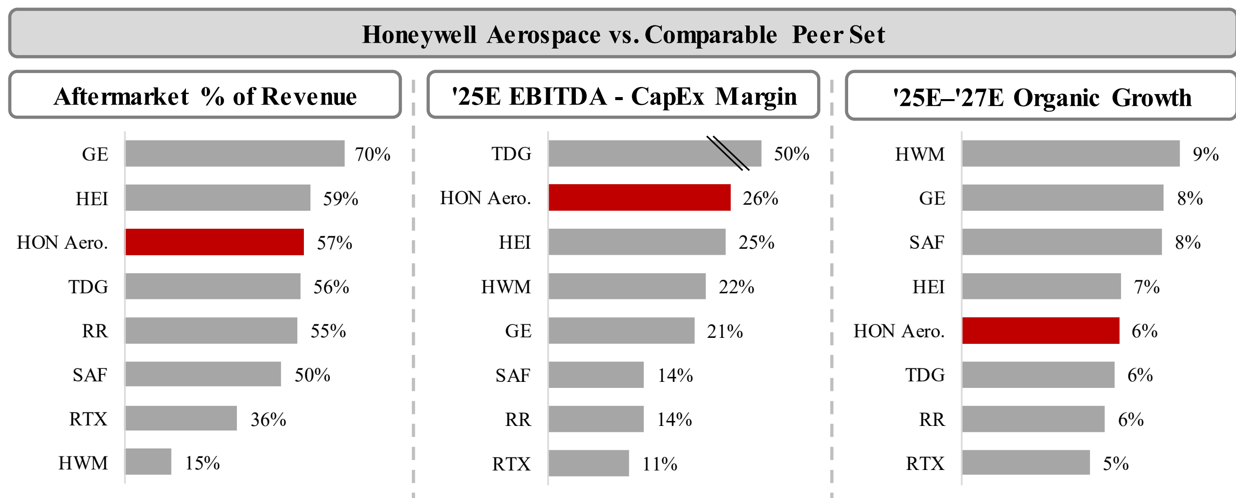
A Separation is in High Demand. The path we are suggesting is not novel, and we are confident that many have already suggested it to Honeywell's Board and management. Honeywell's equity research analysts, many of whom have followed the industrials sector for decades, have written at length about the potential benefits of a separation. Similarly, our diligence indicates that investors have a strong preference for streamlining Honeywell: Our recent shareholder survey of Industrials investors – a group representing 45% of Honeywell's shares outstanding, excluding Elliott – overwhelmingly highlighted investor preferences for pure-plays. Of the investors we surveyed, **81%** stated that pure-play industrial companies perform better than diversified conglomerates.

While shareholders have long hoped for a separation, the current environment presents a distinctly attractive opportunity to do so. We are of course aware that Honeywell has considered the idea of simplification in the past. However, **what makes the current situation different is the sheer amount of value that Honeywell can create by pursuing simplification now.**

Honeywell Aerospace

The outlook for aerospace suppliers appears brighter today than it has in decades. Industry demand for both new and spare parts is at record highs spurred by a global recovery in travel post-COVID that has far outpaced the industry's ability to restore supply commensurately. Quality issues at OEMs have further constrained supply growth, while simultaneously affording significant pricing power to high-quality suppliers in commercial negotiations. As a result, suppliers are benefiting from the flywheel of a multi-year production recovery coupled with improving pricing and profitability, fueling strong earnings growth for the foreseeable future.

Against this favorable market backdrop, Honeywell Aerospace is a category leader with a near best-in-class financial profile and enviable strategic positioning. It generates its profits primarily from the commercial aftermarket where, relative to peers, Honeywell has (i) a higher proportion of aftermarket revenue, (ii) a higher-margin aftermarket business selling primarily spare parts versus low-margin service work, and (iii) stickier aftermarket revenue given industry-leading adoption of "power by the hour" contracts. As a result, Honeywell Aerospace generates operating margins that are second to only Transdigm's in the industry. What differentiates Honeywell's business further is that it generates this margin profile while also investing substantially more than peers to develop industry-leading technology and solidify its future growth potential.

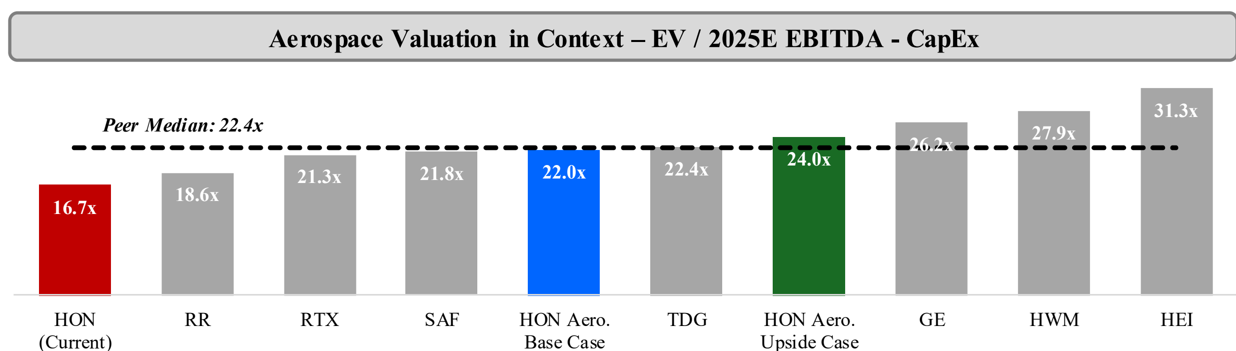


Source: Company filings, Elliott estimates, Bloomberg, Capital IQ as of 11/08/2024.

Note: HON Aerospace '25E EBITDA - CapEx margin reflects Elliott estimates net of $250MM of anticipated incremental standup costs. HON Aerospace '25E-'27E organic growth reflects consensus estimates.

The result is a high-quality aerospace business operating at the forefront of technology, with near best-in-class margins and a durable trajectory of growth ahead.

From a valuation perspective, Honeywell trades at 16.7x EBITDA - CapEx today, compared to an aerospace peer set that trades between 18.6x and 31.3x. Based on its financial profile and strategic position, we believe Honeywell Aerospace should be valued at a premium relative to the average of its aerospace peer group. For the sake of conservatism, in our Base Case, we assume a valuation of 22.0x NTM EBITDA - CapEx, a discount to the peer median and only a modest premium to Raytheon despite Honeywell Aerospace being a faster-growing business with more than double the profit margins and substantially less exposure to defense prime contracting business. In our Upside Case, we assume a valuation of 24.0x NTM EBITDA - CapEx, a modest premium to the peer median and, in our view, a more reasonable valuation based on the business's financial profile. Although not reflected in either case, there is significant strategic upside optionality that could arise once the Aerospace entity becomes a standalone entity.



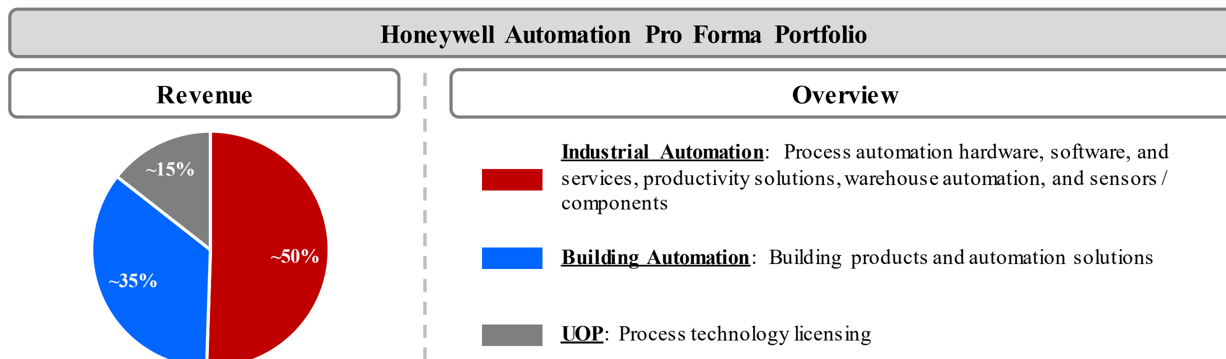
Source: Capital IQ, Bloomberg as of 11/08/2024.

Note: Multiples adjusted for recently announced transactions. European peers adjusted for IFRS accounting differences. RTX excludes FAS/CAS operating adjustment.

Every valuation methodology we apply to Honeywell Aerospace reinforces our strong conviction that, as a standalone entity, it should be worth well over $100 billion. Separating Aerospace into an independent company gives Honeywell the best chance of realizing this potential.

Honeywell Automation

Following its separation from Aerospace as well as the planned dispositions of Advanced Materials and PPE, Honeywell Automation will be a strong, pure-play automation company providing industry-leading solutions for a diversified set of end markets.

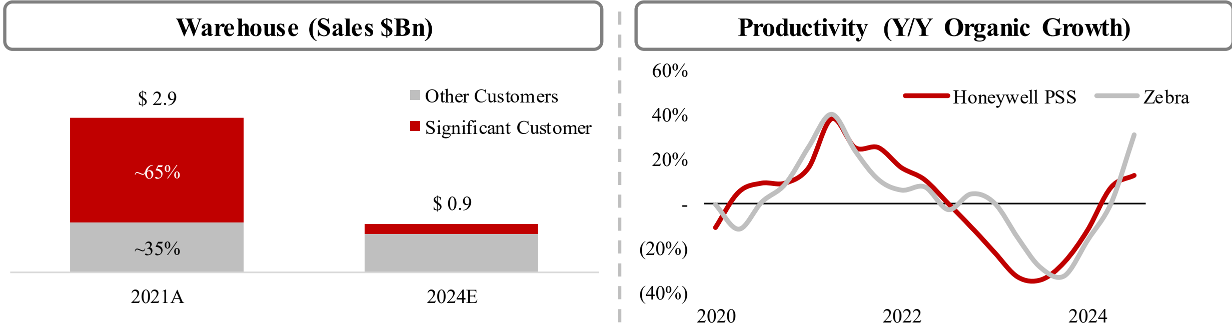


Source: Company filings, Elliott estimates.
Note: Revenue mix presented excluding PPE.

Honeywell Automation holds leading positions in many key categories, including global fire detection; distributed control systems; downstream energy technology and catalysts; and renewable energy and technology. Its primary businesses exhibit significant barriers to entry supported by a global installed base accumulated over decades of market leadership. This installed base provides a valuable stream of recurring revenue through software, aftermarket parts and services, and process catalysts.

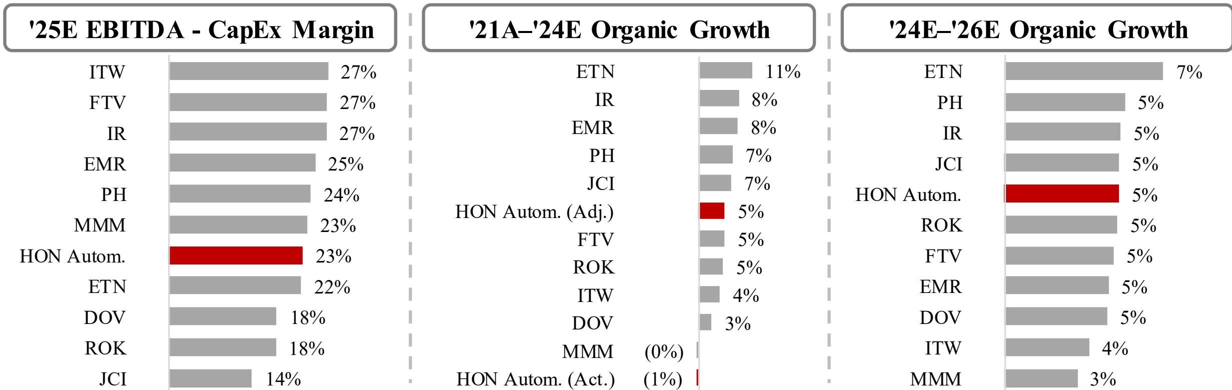
While recent organic growth has fallen below expectations, we believe this is largely due to explainable, non-recurring factors. Specifically, idiosyncratic events in Warehouse, Productivity and PPE drove significant historical declines, but have begun to stabilize. Further, the opportunity for improved performance as a more focused entity provides upside optionality.

In Warehouse, a single customer representing roughly two-thirds of revenue terminated its partnership with Honeywell in mid-2022, but this customer loss is now largely out of the financials and the underlying end-market growth remains robust. At the same time, the Productivity segment suffered from short-cycle weakness and channel de-stocking, but maintained market share and is poised to benefit from the already emerging cyclical rebound. Lastly, PPE has contributed to significant declines at Honeywell, as it has struggled with the intense demand surge and unwind of COVID-related revenues, exacerbated by its non-core status within the Honeywell conglomerate. However, this business has been reclassified as held for sale.



Source: Company filings, Elliott estimates.
Note: Warehouse customer breakdown reflects illustrative estimates. PSS organic growth adjusted for impact of ZBRA license payments.

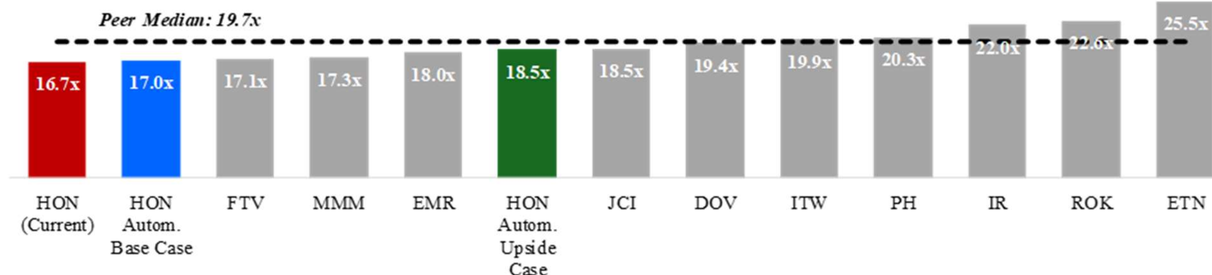
Excluding these three businesses, which should no longer serve as drags on Honeywell's financials, Honeywell Automation's historical organic growth rate would have been ~5%, in line with peers. With strong competitive differentiation and growing end markets, Honeywell Automation enjoys attractive margins and a forward growth profile in line with peers.



Source: Company filings, Bloomberg, Capital IQ as of 11/08/2024.
Note: HON Automation '25E EBITDA - CapEx margin reflects Elliott estimates assuming all existing corporate costs remain with Automation, net of $100MM transferred to Aerospace and Advanced Materials. HON Automation Adjusted '21-'24E growth reflects historical and consensus estimates excluding Warehouse, PSS, and PPE. HON Automation '24E-'26E reflects consensus estimates excluding PPE.

Today Honeywell trades at ~16.7x EBITDA - CapEx, compared to an industrial peer set that trades between 17.1x and 25.5x. Despite Honeywell Automation's in-line profitability and growth profile, our Base Case takes the conservative step of assuming 17.0x NTM EBITDA – CapEx, a multiple that remains at a discount to Fortive, 3M and every other diversified industrial peer. Further, while our Base Case does not assume any operating improvement, we would expect a more focused Honeywell Automation to achieve superior operational performance, for all the reasons described above. In our Upside Case, we assume a valuation multiple of 18.5x NTM EBITDA - CapEx, a modest discount to the peer median.

Automation Valuation in Context – EV / 2025E EBITDA - CapEx



Source: Capital IQ, Bloomberg as of 11/08/2024.
Note: Multiples adjusted for recently announced transactions. MMM enterprise value includes estimate for PFAS liability of $20Bn based on equity research estimates.

In short, we firmly believe that a stand-alone Honeywell Automation would be a stronger, better-run business valued at approximately $100 billion. By separating from Aerospace and emerging as a coherent collection of automation-focused assets, Honeywell Automation would represent an attractive investment opportunity with an enhanced ability to maximize its potential.

Value Creation Potential

We believe a separation of Aerospace and Automation could yield share price gains of 51% – 75% over the next two years. The Base Case below reflects our status quo estimates for each business without assuming any operational uplift from separation. This analysis yields a value per share of $330 by the end of 2026. As discussed above, we fully expect that Aerospace and Automation will achieve superior operational performance as streamlined and focused pure-plays. Our Upside Case captures this potential for the more focused entities to outperform once freed from the conglomerate structure, driving additional organic growth and margin improvement as well as modest multiple expansion. This analysis shows a value per share of $383 by the end of 2026.

Illustrative Value Creation (*As of Year-end 2026*)

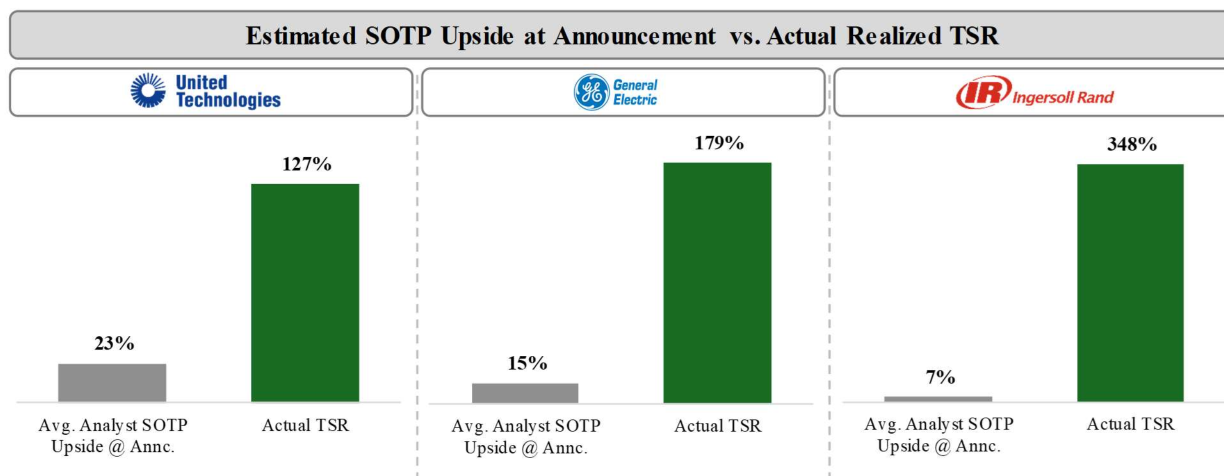
	Base Case			Upside Case		
($bn; FYE December)	2027E EBITDA - CapEx	NTM EV / EBITDA - CapEx	TEV	2027E EBITDA - CapEx	NTM EV / EBITDA - CapEx	TEV
HON Aerospace	$ 5.2	22.0x	$ 114.7	$ 5.5	24.0x	$ 133.1
HON Automation	5.4	17.0x	91.6	5.8	18.5x	106.6
HON Adv. Materials	0.9	13.5x	11.5	0.9	13.5x	11.5
PPE	0.2	9.5x	1.5	0.2	9.5x	1.5
Quantinuum	(0.2)	n.a.	2.9	(0.2)	n.a.	2.9
Total Honeywell TEV ($bn)	**$ 11.4**	**19.4x**	**$ 222.1**	**$ 12.1**	**21.0x**	**$ 255.5**
(-) Net Debt			(17.2)			(16.8)
(+) Pension, Environmental, and Other Liabilities			1.7			1.7
Market Capitalization ($bn)			**$ 206.6**			**$ 240.4**
(/) Fully Diluted Shares Outstanding (mm)			643			643
Share Price *(Year-end 2026)*			**$ 321**			**$ 374**
(+) Cumulative Dividends / Share			9			9
Total Value per Share *(December 31, 2026)*			**$ 330**			**$ 383**
% Upside			**+51%**			**+75%**

Source: Bloomberg and CapitalIQ as of 11/08/2024.
Note: Assumes existing corporate overhead remains with Automation net of $100mm of costs transferred to the remaining segments; $250mm and $50mm of incremental standup costs at Aerospace and Advanced Materials, respectively. Net debt assumes $1.5Bn of one-time separation cash costs.

This level of value creation would be profound for any company, let alone one of Honeywell's size. However, history would indicate that these assumptions might ultimately prove too conservative. Notably, in three of the most recent comparable examples – United Technologies, GE and Ingersoll Rand – the realized upside from these portfolio moves *far* exceeded any initial expectations at the time of announcement.

While analysts initially estimated an average of just 10–25% upside from separating these former conglomerates, the actual value creation achieved has been substantially greater – Ingersoll Rand generated $100 billion of value from announcement to today, United Technologies $140 billion and GE $150 billion. In each case, improved business performance drove both higher earnings and increased valuations, leading to a level of value creation far exceeding any forecasts at the time these portfolio changes were announced. We believe this same opportunity exists for Honeywell today.

> *"**SOTP just doesn't work**, mostly because it uses current profits - not the profits generated by a more dynamic entity and it uses P/E or EV/EBITDA comps that are often circular and point to 'average' when spin-off eps growth is often well above average. **What the data tells us and our experience with north of 25 spin-offs is that we always seem to underestimate how a focused spin-off entity can create value.**" (Barclays, May 2017)*



Source: Equity research, Bloomberg as of 11/8/2024.
Note: Share price performance reflects total shareholder return of conglomerate package from the day before separation announcement through today. Day before separation announcement was 4/29/2019 for IR, 2/20/2018 for UTC, and 11/8/2021 for GE. Includes 8 analyst estimates for IR, 10 for UTC, and 12 for GE.

V. The Path Forward

We hope this letter is received in the same spirit in which it is shared: A desire to work together to help Honeywell achieve its full potential. Honeywell consists of a collection of market-leading assets, run with an operating system that is the envy of the industry. Despite these advantages, we believe that Honeywell's underlying value far exceeds the value that the market has assigned it today. We suspect the Board and management team agree.

Honeywell is at an inflection point. While its performance has lagged, its market positioning remains sound, and comparable valuations continue to reach new highs. The case for change is clear and compelling, and the path to achieving that change is straightforward: allowing Honeywell Aerospace and Honeywell Automation to stand on their own. We hope you share our view – and the growing market consensus – that *now* is the right time for Honeywell to take this step in its evolution.

We would like to conclude by requesting an opportunity to meet in person to expand upon the analysis above, to hear your views on this opportunity, and to advance our shared commitment to Honeywell's success. We are available to meet at your earliest convenience.

Sincerely,

Marc Steinberg
Partner

Jesse Cohn
Managing Partner