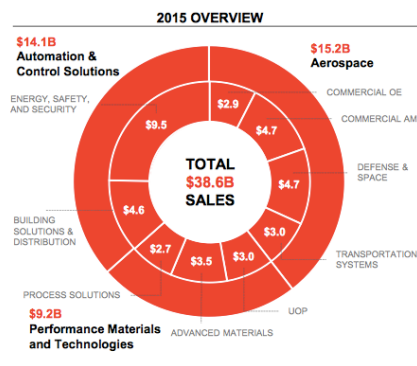


**Honeywell**

**2016 MBA SMF Analysis Report**

Yun Xie, Akhil Sood

**Exhibit 1. 2015 Segment Incomes**



Source: Honeywell 2016 Fact Sheet

**Executive Summary**

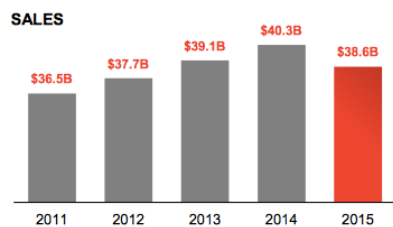
We issue a “BUY” recommendation on Honeywell International Inc. (HON) with a one-year target price of \$148.00.

**Leading Market Position:** Honeywell International holds a leading market position in the markets in which it serves.

**Competitive business Strategies:** Honeywell has capability to generate stable diversified revenue streams by combining strategic growth in its diverse businesses and its cost discipline with a marked acceleration of its capital deployment strategy.

**Positive Industry Outlook:** Honeywell sees a lot of opportunities to grow in its all business areas, benefiting from the positive industry outlook.

**Exhibit 2. Sales in the past five 5 Years**



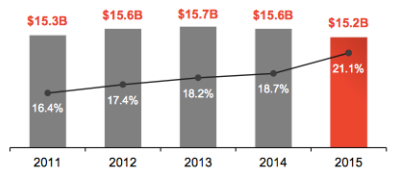
Source: Honeywell 2016 Fact Sheet

**Business Description**

**Company Overview**

Honeywell International Inc. (NYSE: HON) is a Fortune 100 diversified technology and manufacturing conglomerate headquartered in Delaware. Its products and services include aerospace products and services, turbochargers, control, sensing and security technologies for buildings, homes and industry, specialty chemicals, electronic and advanced materials, process technology for refining and petrochemicals, and energy efficient products and solutions for homes, business and transportation. HON conducts business through three major operating segments: Aerospace, Automation & Control Solutions, and Performance Materials and Technologies.

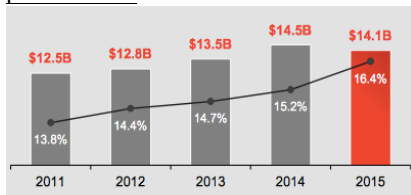
**Exhibit 3. Aerospace segment sales in the past 5 Years**



Source: Honeywell 2016 Fact Sheet

In 2015, HON achieved sales of \$38.6 Billion. And the Aerospace, Automation & Control Solution, and Performance Materials accounted for 39.4%, 36.5%, and 24.1% of sales respectively. (Exhibit 1) In 2015, the total sales went down by 4.2% from 2014 to 2015, and grew about 5.8% in the past five years. (Exhibit 2) HON generated about 9.7% of sales from products sold to the U.S. government in 2015. U.S. exports comprised 14% of total sales, while Non-U.S. manufactured products and services, mainly in Europe and Asia, accounted for 39% of total sales in 2015.

**Exhibit 4. ACS segment sales in the past 5 Years**

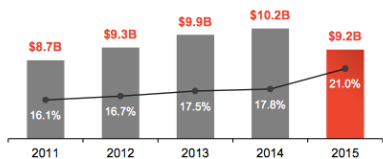


Source: Honeywell 2016 Fact Sheet

**Business Segment**

The Aerospace sells a variety of products and services to aircraft manufacturers, airlines, aircraft operators, military services, and defense and space contractors. It is also a leading maker of turbochargers to improve the performance and efficiency of passenger cars and commercial vehicles. The Aerospace segment sells its products to original equipment manufacturers (OEMs), and provides spare parts and repair and maintenance services for the aftermarket. Key competitors of this segment are Borg-Warner (automotive), Garmin, General Electric, Rockwell Collins, Thales and United Technologies. The segment sales grew 2.6% to \$15.7 billion from 2011 to 2013 and

**Exhibit 5. PMT segment sales in the past 5 Years**



Source: Honeywell 2016 Fact Sheet

dropped down 0.65% to 15.2 billion in 2015. Sales of this segment kept stable in the past five years. (Exhibit 3)

The Automation and Control Solutions (ACS) is a global leader for environmental and energy solutions; sensors, switches and controls for sensing and productivity solutions; security and fire safety products; industrial safety products; and building solutions and services for homes, commercial buildings and industrial facilities. Key competitors of this segment are 3M, Johnson Controls, Schneider, Siemens and Zebra-Motorola. Sales of this segment grew 12.8% to \$14.1 billion from 2011 to 2015. (Exhibit 4)

**Exhibit 6. Total Air Freight and Passenger Volumes in the past 10 years**



Source: IATA website

The Performance Materials and Technology (PMT) segment develops and manufactures advanced materials, process technologies and automation solutions. Key competitors of this segment are Albemarle, BASF, Dow, DuPont, Emerson and Sinopec. Sales of this segment grew 5.7% to \$9.2 billion in the past five years. (Exhibit 5)

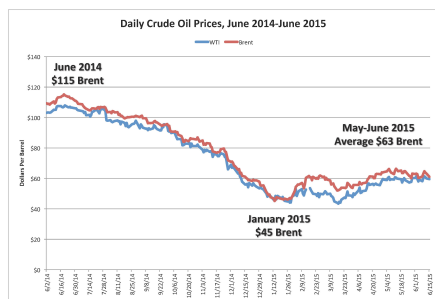
**Positive Industry Outlook**

We are positive on aerospace & defense industry for the next 12 months.

**Improving Commercial Air Traffic**

The International Air Transport Association (IATA) announced global passenger traffic demand rose 6.5% for the full year in 2015 compared to 5.9% in 2014. This was the strongest result since the post-Global Financial Crisis rebound in 2010 and well above the 10-year average annual growth rate of 5.5%. In Nov. 2015, IATA released its updated passenger growth forecast, projecting that passenger numbers are expected to reach 7 billion by 2034 with a 3.8% average annual growth in demand (2014 baseline year). That is more than double the 3.3 billion who flew in 2014 and exactly twice as many as the 3.5 billion expected in 2015.

**Exhibit 7. Daily Crude Oil Price, June 2014 – June 2015**



Source: www.zerohedge.com

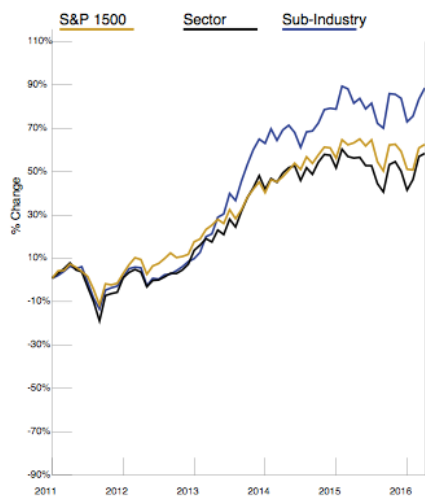
**Low Crude Oil Price**

Crude Oil is at a very low price and is expected to remain low, reducing much cost for all the airline operations now and in the future. (Exhibit 7) IATA estimates global airlines earned \$36.3 billion net profit in 2016, compared to \$33 billion in 2015 and \$17.3 billion in 2014.

**Rising Aircraft and Equipment Demands**

Commercial aircraft demands from Asia and Latin America is rising driven by the recovering global economic trends. Business Jets demand in North America and emerging markets are recovering, and are expected to reach a peak in the next few years. Jet deliveries from 2014-2024 are expected to increase by 8%, from the earlier

**Exhibit 8. Sub-industry performance**



NOTE: All Sector & Sub-Industry information is based on the Source: S&P Capital IQ

2013 forecast. Boeing and Airbus have announced continued production increases over the next several years and new model introduction. Many commercial aircrafts and Conventional military equipment is aging and less fuel-efficient, generating need for replacement or repair.

**Sector and sub-industry performance**

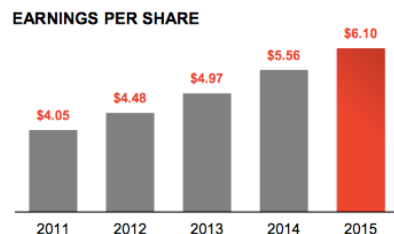
In 2015, the sub-industry outperformed the sector and the S&P 1500. The sub-industry index rose 2.6% in 2015, vs. a 4.7% decline for Industrials and a 1.0% decline for the S&P 1500. (Exhibit 8)

In general, the improving commercial air traffic, low crude oil price, and rising aircraft and equipment demand will benefit HON’s Aerospace segment, generating solid demands for its products to OEMs and spare parts and repair and maintenance services for the aftermarket. In addition, the company will not only benefit from the favorable industry trend, but also its competitive business Strategies.

**Competitive Company Strategies**

In 2015, Honeywell achieved a terrific financial outcome by combining strategic growth in its diverse businesses and its cost discipline with a marked acceleration of its capital deployment strategy. Earnings per share grew 50.6% from \$4.05 per share in 2011 to \$6.04 per share in 2015. (Exhibit 9) Segment margin reached 18.8% in 2015 compared 14.7% in 2011. (Exhibit 10) Free cash flow grew about 54.5% from \$2.0 billion in 2011 to \$4.4 billion in 2015. (Exhibit 11) The company announced a 15% dividend increase in 2015 compared to 2014, reaching its 11<sup>th</sup> dividend increase since 2005. (Exhibit 12) The terrific result in 2015 due to the company’s competitive business strategies.

**Exhibit 9. EPS in Last 5 Years**

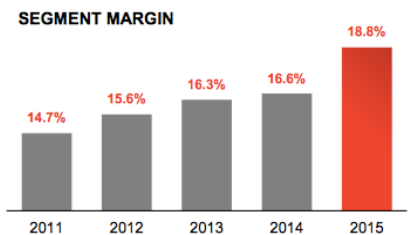


Source: Honeywell 2016 Fact Sheet

**Operation improvement**

HON spent \$216 million of repositioning investments in 2015 to improve its operations and increased investment in High Growth Regions.

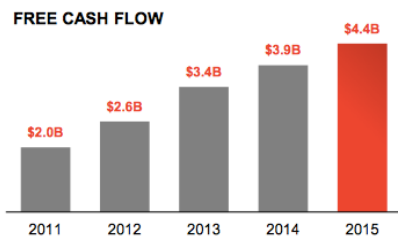
**Exhibit 10. Segment Margin in Last 5 Years**



Source: Honeywell 2016 Fact Sheet

The company created Honeywell Operating System (HOS) Gold, an end-to-end business management process focused on customers and markets, strategy development and execution, robust management, standardized work and cross functional engagement. HOS Gold is focusing on growing sales, becoming more productive, and integrating all of the company’s major internal process initiatives into a total business operating system. HON also launched the Honeywell User Experience (HUE), a new approach to the design and development of new products and services. HUE starts with the customer experience and deploys rapid prototyping and other design principles, which enable faster cycle time and lead to increased customer value and loyalty. HOS Gold and HUE are competitive differentiators that will enable HON to deliver sustainable, exceptional financial and operating performance. (Exhibit 13)

**Exhibit 11. Free Cash Flow in Last 5 Years**



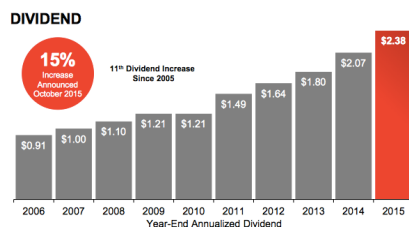
Source: Honeywell 2016 Fact Sheet

Looking at the financial data in 2015, although HON’s Sales went down by 4% driven by the stronger dollar, it generated a 10% increase in EPS. The increase of EPS almost entirely came from operations improvements, not share repurchase.

**Strategic Acquisitions**

In 2015 HON deployed over \$5 billion, acquiring businesses that will be integrated into each of its three operating segments. These acquisitions all share a technology that deep the alignment with global macro trends such as energy efficiency, clean energy generation, safety and security, urbanization and customer productivity. These acquisitions expected to add approximately \$5-\$8 billion of sales over the next 5 years, helping the company to achieve the goal of taking total company sales over \$50 billion by 2018.

**Exhibit 12. Traffic and Capacity Growth- October 2014**



Source: Honeywell 2016 Fact Sheet

**Opportunistic Share Buybacks**

HON continue to opportunistically repurchase its shares with the goal of generally keeping share count flat and seeking to offset the dilutive impact of employee stock based compensation plans. In 2015, HON repurchased 18.8 million shares for \$1.9 billion.

**Capital Investment in Facilities**

HON invested about \$1.1 billion in high-return capital expenditures (30-40% IRR) in 2015, focused on high-return projects such as new production capacity for its PMT segment to support customer demand. These investments would help to drive growth in sales and earnings in the long term.

**Exhibit 13. HOS GOLD**



Source: Company financial release

**Research and development**

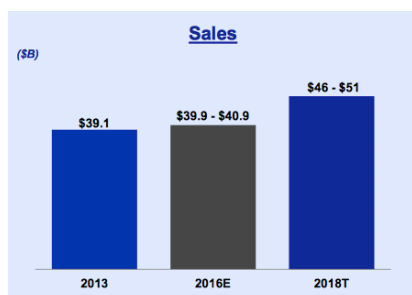
HON is maintaining its R&D expenditure at 5% of sales in 2015, 2014, and 2013, developing new products aligned with global macro-economic trends in energy, safety and security, and productivity.

**Next Five-Year Plan**

Over the next five years, HON expects to continue to expand margins, grow earnings at a double-digit pace, and to nearly double free cash flow, which will support the investment in global growth opportunities and strong shareholder returns. The Company expects 2018 sales to increase organically \$7-\$12 billion to \$46-\$51 billion and segment margins to increase 220-370 basis points over 2013 levels to 18.5-20.0%. (Exhibit 14 & 15) The Company also expects to deliver on its previous five-year targets ending this year.

**Favorable Market Positioning**

**Exhibit 14. Sales in Next Five-year Plan**

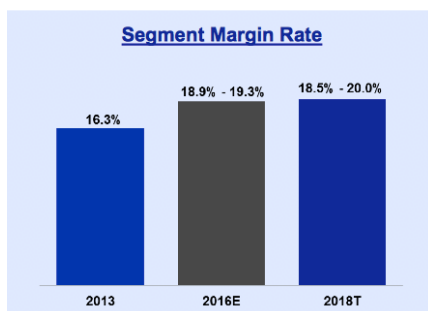


HON enjoys a leadership position in the industries of all of its three business segments. In 2015, the company achieved 8.9% growth in net income, higher above the company peer median, which is -4.6%. The growth of reported sales was -4.3%, higher than the company peer median, which is -5.3%. And the EPS grew 9.7%, much higher than the company peer median, which is -1.0%. (Exhibit 16)

## Social Responsibility

Honeywell’s Sustainable Opportunity Policy is aligned with its Health, Safety and Environment (HSE) Management System, which is integrated into the Honeywell Operating System (HOS). Honeywell’s Vice President of Health, Safety, Environment, and Sustainability (HSES) has overall responsibility for the sustainability program. A Corporate Energy & Sustainability Team, led by the Vice President of HSES and the Vice President of Global Real Estate, helps drive the company’s greenhouse gas and energy efficiency goals.

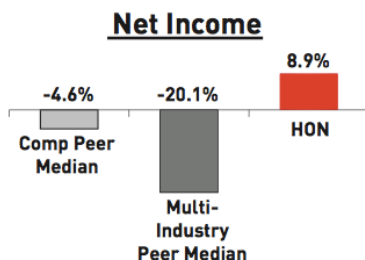
**Exhibit 15. Segment Margin Rate in Next Five-year Plan**



HON’s New Product Introduction Procedure requires each of its businesses to establish and document a process to consider eco-efficiency criteria throughout the product lifecycle during new product development. Criteria to consider include reduction of natural resources during manufacture and distribution; increased energy – efficiency of the product itself or because of its use; reduction in waste production; product reuse or recycling opportunities; opportunities for use of recycled or renewable production materials; reduction or elimination of classified toxic or hazardous materials; reduction in packaging.

Honeywell engages responsibly in the political process. Its products and services are closely aligned with several key public policy priorities including safety, security, energy efficiency and clean energy generation.

**Exhibit 16. Peer Comparison**

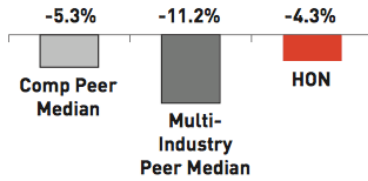


## Financial Analysis

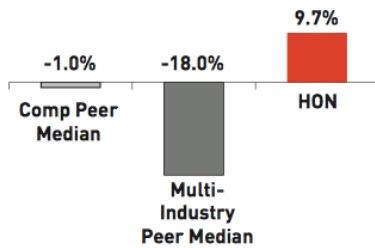
### DuPont Analysis

From the DuPont Analysis (Refer to Appendix), we can see that the ROE has been increasing during last five years. From measuring the four multiples of ROE, we can see that the tax burden has been stable in the five years, interest burden has been increasing slightly from 2011 to 2015. The increase in interest burden shows that the company paid less interest year by year. The company’s operating margin has been increasing from 7% to 17%, which indicates the company has a higher operational efficiency and a positive forecasting in 2016. This is also relevant as the company has been making strides in improving their operating efficiency in the last few years. Asset Turnover decreased from 2011 to 2015, which suggests that the company has more

### Reported Sales



### EPS



Source: Company Investor Conference Presentation

capital tied up in its asset base, however HON employs in high capital industry. In addition, the leverage ratio is decreasing during the five years, suggesting the company has less debt or more equity. Therefore, the ROE increased in last five years due to the increase in asset turnover and interest burden offset the decrease in leverage ratio. Therefore, we conclude that the increase of ROE is not due to the increase in the leverage, which will increase the company's debt burden. Instead, it is due to the more revenue generated by asset and less interest paid. Hence, we expect the company will continue to have a positive ROE growth rate.

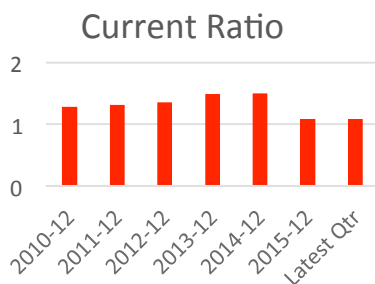
### Liquidity Analysis

Liquidity Ratios (Cash Ratio, Current Ratio, and Quick Ratio) experienced a decrease from 2010 to 2015, suggesting the company's ability to satisfy its short-term obligations became weaker. Solvency ratios (long-term Debt/Equity, Long-term Debt/Capital, Long-term Debt/Total Asset) decreased significantly from 2010 to 2015, suggesting that the firm's ability to satisfy its long-term obligations become stronger. And from the balance sheet we found that the company's cash decreased tremendously in 2015 and the company's asset of property, plant and equipment has been decreasing, which suggests that the company is reducing some of its capacity.

### Activity Analysis

From the ratios table above, we found that the Account Receivable Turnover and Days Sales Outstanding have kept stable during the last five years. The Account Receivable Turnover is higher than the industry benchmark, suggesting that the company's ability to collect revenue is stronger than the level of the industry.

**Exhibit 17.** Financial Analysis - Current Ratio



	ROA	=	Tax Burden	×	Interest Burden	×	EBIT Margin	×	Asset Turnover
Dec 31, 2015	9.67%		0.73		0.95		17.67%		0.78
Dec 31, 2014	9.33%		0.74		0.95		15.00%		0.89
Dec 31, 2013	8.64%		0.73		0.94		14.60%		0.86
Dec 31, 2012	6.99%		0.76		0.92		11.21%		0.90
Dec 31, 2011	5.19%		0.83		0.87		7.83%		0.92

Source: Based on data from Honeywell International Inc. Annual Reports

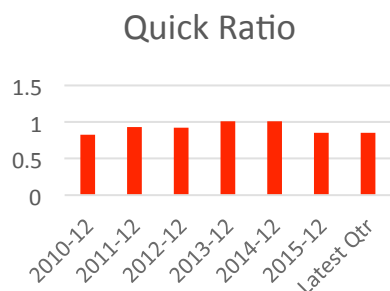
### Profitability Analysis

From the ratios table above, we found that the ROE and ROA of the company has been increasing rapidly during last five years, and all became higher than the industry benchmark in 2015. In addition, the EBITDA Margin, Pretax Margin, and Net Income Margin also have sharp increases from 2011 to 2014, and all are much higher than the industry benchmark in 2015. Therefore, we can conclude that the company has an above average profitability and we expect it to continue in the future.

### Shareholder Analysis



**Exhibit 18. Financial Analysis - Quick Ratio**



From the exhibit, we found that the company’s Earning per Share is increasing from 2011 to 2014. We expect the increasing EPS and positive forecast of the EPS will positively influence the company’s stock in the near future.

## VALUATION

### Basic Assumptions

We assumed the 10 yr. Treasury rate of 2.12% to be the risk free rate with the risk premium of 7.5%, HON’s beta 1.16, leading to Cost of Equity of 10.4% and WACC of 9.1%.

### Historical Growth Rates:

We calculated historical growth rate based on last 5 years and get got an average historical growth rate of 3%. We also calculated perpetuity growth rate with free cash flow and it comes out to be 3.2%.

**Exhibit 19. Financial Analysis – Long Term Debt**

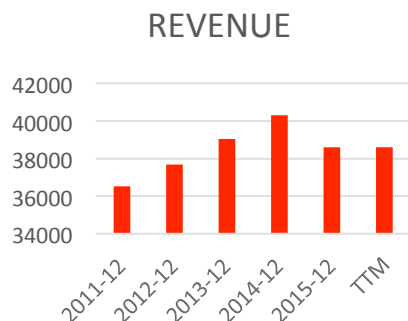


### Intrinsic Value

Based on Honeywell’s diversified business model but unpredictable industry, we think a conservative growth rate in next 5 years would be 5%. We projected the perpetuity growth rate to be 3.2%. We calculated the free cash flow with data from Bloomberg.

By using the DCF model, we got an intrinsic value: \$161 (Perpetuity Model) & \$148 (EBITDA Multiple Model)

**Exhibit 20. Financial Analysis – Revenue**



Free Cash Flow at Year 5	8649	Terminal EBITDA at Year 5	11426
WACC	9%	WACC	9%
Perpetuity Growth Rate	3%	Exit Enterprise Value / EBITDA	11.3x
Perpetuity Value at End of Year 5	150570	Terminal Value at End of Year 5	135,972
Present Value of Perpetuity (@ 9.1% WACC)	97476	Present Value of Terminal Value (@ 9.1% WACC)	88,026.09
(+) Present Value of Free Cash Flows (@ 9.1% WACC)	30252	(+) Present Value of Free Cash Flows (@ 9.1% WACC)	30,251.82
(=) Current Enterprise Value	<b>127728</b>	(=) Current Enterprise Value	118,277.92
Short Term Debt	6514	Short Term Debt	6514
(+) Long Term Debt	5554	(+) Long Term Debt	5554
(-) Cash and Marketable Securities	7558	(-) Cash and Marketable Securities	7558
(-) Current Net Debt	4510	(-) Current Net Debt	4510
(-) Current Preferred and Minority Interest	425	(-) Current Preferred and Minority Interest	425
(=) Equity Value	122793.2	(=) Equity Value	113,342.92
Shares outstanding	761,33527	Shares outstanding	761
Estimated Value per Share (USD)	161.29	Estimated Value per Share (USD)	149
Current Price (USD)	114.845	Current Price (USD)	115
Estimated Upside	40%	Estimated Upside	30%

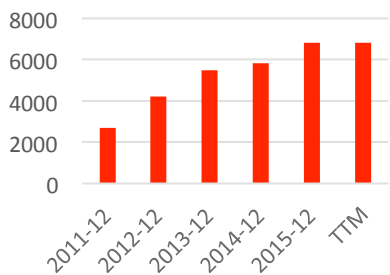
We also performed a sensitivity analysis (Appendix D) to see the range of intrinsic values. While the projected growth rates were changed. So the intrinsic value should be \$114 to \$185, given the current economic situation. The median value is \$148, which is much higher than \$115.02. So, considering all this, we believe Honeywell is undervalued.



**Exhibit 21.** Financial Analysis – Operating Income

The price of HON was \$91.59 on Sept 28, 2015. Now it is \$115.02 (April 21, 2016).

**OPERATING INCOME**



**Financial Risk**

**Risk sensitivity**

According to Nasdaq, Honeywell has a risk of 102, while S&P index has a risk of 82. Being in the industrial sector, the company does get affected by legal, international and operational risks.

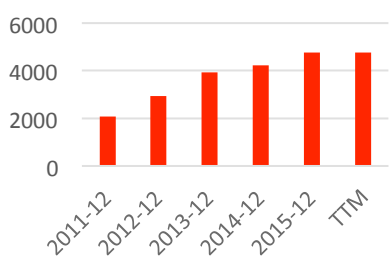
**Macro-Economic And Industry Risks**

**Aerospace:**

- Operating results of Aerospace are directly tied to cyclical industry and economic conditions, as well as changes in customer buying patterns of aftermarket parts, supplier stability, factory transitions and capacity constraints. The operating results of Commercial Original Equipment and Commercial Aftermarket business units may be adversely affected by downturns in the global demand for air travel which impacts new aircraft production or the delay or cancellation of new aircraft orders, delays in launch schedules for new aircraft, the retirement of aircraft and global flying hours, which impact business and general aviation aircraft utilization rates.
- Operating results in Defense and Space Systems business unit may be affected by the mix of U.S. and foreign government appropriations for defense and space programs.
- Operating results in Transportation Systems business unit may be affected by the level of production and demand for automobiles and trucks equipped with turbochargers, regulatory changes regarding automobile and truck emissions and fuel economy, consumer demand and spending for automotive aftermarket products and delays in launch schedules for new automobile and truck platforms.

**Exhibit 22.** Financial Analysis – Net Income

**NET INCOME**



**ACS:**

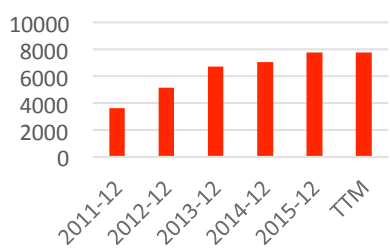
Operating results may be adversely impacted by downturns in the level of global residential and commercial construction (including retrofits and upgrades), capital spending and operating expenditures on building and process automation, industrial plant capacity utilization and expansion, and inventory levels in distribution channels.

**PMT:**

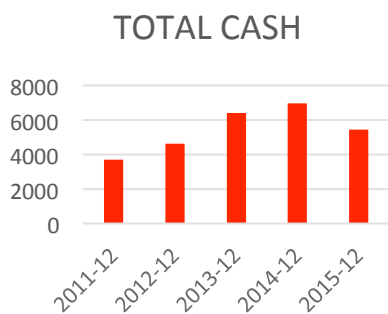
Operating results may be adversely impacted by downturns in the capacity utilization for chemical, industrial, refining, petrochemical and semiconductor plants, customers' availability of capital for refinery construction and expansion, raw material demand and supply volatility, and the company's ability to maximize its facilities' production capacity and minimize downtime. In particular, the volatility in oil and natural gas prices have and will continue to impact customers' operating levels and capital spending and thus demand for their products and 6 services. Pricing of certain chemical products are driven by raw materials that are correlated to the price of oil,

**Exhibit 23.** Financial Analysis – EBITDA

**EBITDA**



**Exhibit 24. Financial Analysis – Total Cash**

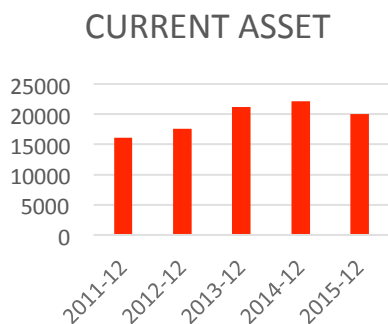


hence revenue could be significantly impacted by volatility in the price of oil.

**International Operations:**

International operations, including U.S. exports, represent more than half of the Company’s sales. Risks related to international operations include exchange control regulations, wage and price controls, antitrust regulations, employment regulations, foreign investment laws, import, export and other trade restrictions (such as embargoes), violations by employees of anti-corruption laws, changes in regulations regarding transactions with state-owned enterprises, nationalization of private enterprises, acts of terrorism, and the ability to hire and maintain qualified staff and maintain the safety of their employees in these regions. Instability and uncertainties arising from the global geopolitical environment and the cost of compliance with increasingly complex and often conflicting regulations worldwide can impair the company’s flexibility in modifying product, marketing, pricing or other strategies for growing businesses, as well as the company’s ability to improve productivity and maintain acceptable operating margins.

**Exhibit 25. Financial Analysis – Current Asset**



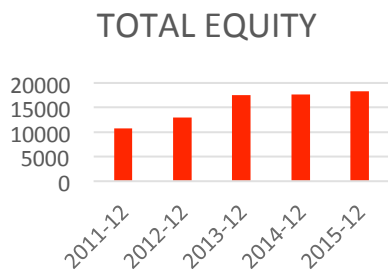
**OPERATIONAL RISKS**

Raw material price fluctuations, the ability of key suppliers to meet quality and delivery requirements, or catastrophic events can increase the cost of their products and services.

The cost of raw materials is a key element in the cost of their products, particularly in PMT (cumene, fluorspar, R240, natural gas, perchloroethylene, sulfur and ethylene) and Aerospace (nickel, steel, titanium and other metals). The company’s inability to offset material price inflation through increased prices to customers, formula or long-term fixed price contracts with suppliers, productivity actions or through commodity hedges could adversely affect their results of operations.

**The company’s future growth is largely dependent upon their ability to develop new technologies and introduce new products that achieve market acceptance in increasingly competitive markets with acceptable margins.**

**Exhibit 18. Financial Analysis – Total Equity**



Future growth rate depends upon a number of factors, including their ability to

- (i) Identify emerging technological trends in target end-markets
- (ii) Develop and maintain competitive products and defend market share against an ever-expanding number of competitors including many new and non-traditional competitors
- (iii) Enhance products by adding innovative features that differentiate products from those of competitors and prevent commoditization of products
- (iv) Develop, manufacture and bring compelling new products to market quickly and cost-effectively
- (v) Attract, develop and retain individuals with the requisite technical expertise and understanding of customers’ needs to develop new technologies and introduce new products.

All Financial Analysis Charts Source: Bloomberg

**Legal and Regulatory Risks**

As a supplier of military and other equipment to the U.S. Government, they are subject to unusual risks, such as the right of the U.S. Government to terminate contracts for convenience and to conduct audits and investigations of their operations and performance.

- (i) U.S. and non-U.S. tax liabilities are dependent, in part, upon the distribution of income among various jurisdictions in which we operate**
- (ii) Changes in legislation or government regulations or policies can have a significant impact on their results of operations.**
- (iii) The company cannot predict with certainty the outcome of litigation matters, government proceedings and other contingencies and uncertainties.**

## Appendix

### Appendix A

#### DUPONT ANALYSIS

	ROA	=	Tax Burden	×	Interest Burden	×	EBIT Margin	×	Asset Turnover
Dec 31, 2015	9.67%		0.73		0.95		17.67%		0.78
Dec 31, 2014	9.33%		0.74		0.95		15.00%		0.89
Dec 31, 2013	8.64%		0.73		0.94		14.60%		0.86
Dec 31, 2012	6.99%		0.76		0.92		11.21%		0.90
Dec 31, 2011	5.19%		0.83		0.87		7.83%		0.92

Source: Based on data from Honeywell International Inc. Annual Reports

### Appendix B

#### FINANCIAL RATIOS

Honeywell International Inc (HON US)					
In Millions of USD except Per Share 12 Months Ending	FY 2011 12/31/2011	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015
<b>Tax Burden</b>	90.58	75.51	72.51	72.86	72.40
<b>Interest Burden</b>	88.66	93.24	—	—	—
<b>Operating Margin</b>	7.05	11.03	14.09	14.47	17.70
<b>Asset Turnover</b>	0.94	0.92	0.89	0.89	0.81
<b>Leverage Ratio</b>	3.62	3.43	2.87	2.59	2.64
<b>Liquidity Analysis</b>					
Current Ratio	1.31	1.35	1.49	1.50	1.09
Return on Com Eqty	19.25	24.61	25.78	24.14	26.53
Return on assets	5.32	7.17	8.99	9.33	10.06
Dividends per Share	1.37	1.53	1.68	1.87	2.15
Free Cash Flow	2,035.0	2,633.0	3,388.0	3,930.0	4,381.0
<b>Activity</b>					
A/R turnover	5.11	5.14	5.85	6.68	6.19
Annualized Days Sales Outstanding	72.22	72.19	55.34	55.71	59.71
Inv. turnover	6.95	6.66	6.65	6.66	6.06
T12 Inv to cash-days	123.97	126.19	117.25	109.48	119.17
<b>Profitability</b>					
Return on Com Eqty	19.25	24.61	25.78	24.14	26.53
Return on assets	5.32	7.17	8.99	9.33	10.06
Return on cap.	13.27	16.38	—	—	—
EBITDA Margin	9.67	13.49	16.62	16.76	19.99
Operating Margin	7.05	11.03	14.09	14.47	17.70
Pretax Margin	6.25	10.29	13.86	14.43	17.07
Net Income Margin Adjusted	6.32	8.53	10.83	11.13	13.28

Source: Bloomberg

Appendix C

HISTORICAL DATA AND PROJECTED ANALYSIS

	ACTUAL					Projection Period					
In Mil. USD	11-Dec	12-Dec	13-Dec	14-Dec	15-Dec	16-Dec	17-Dec	18-Dec	19-Dec	20-Dec	
Revenue	36529	37665	39055	40306	38581	40559	42077	43936	47275	49693	
% YOY Growth	9%	3%	4%	3%	-4%	5%	4%	4%	8%	5%	
EBITDA	4274	5525	7153	7353	8258	8520	9179	9958	10714	11262	
% Margin	12%	15%	18%	18%	21%	21%	22%	23%	23%	23%	
Free Cash Flow	3050	3627	7291	3967	5899	6162	6831	7683	7775	8505	
% Margin	8%	10%	19%	10%	15%	15%	16%	17%	16%	17%	
Revenue	36529	37665	39055	40306	38581	40559	42077	43936	47275	49693	
% YOY Growth	9%	3%	4%	3%	-4%	5%	4%	4%	8%	5%	
Gross Profit	8619	9802	11257	11874	12317	12668	13382	13752	14797	15554	
% YoY Margin	24%	26%	29%	29%	32%	31%	32%	31%	31%	31%	
Operating Income	3317	4599	6164	6429	7375	7562	8128	8745	9410	9891	
% Margin	9%	12%	16%	16%	19%	19%	19%	20%	20%	20%	
NOPAT	2583	3428	4472	4747	5379	5622	5986	6424	6930	7281	
% Margin	7%	9%	11%	12%	14%	14%	14%	15%	15%	15%	
Free Cash Flow	<b>3,050</b>	<b>3,627</b>	<b>7,291</b>	<b>3,967</b>	<b>5,899</b>	<b>6,162</b>	<b>6,831</b>	<b>7,683</b>	<b>7,775</b>	<b>8,505</b>	
% Margin	8%	10%	19%	10%	15%	15%	16%	17%	16%	17%	
PV Of Cash Flow						4149.118	6157.234	6348.705	5889.058	5905.9268	
EBITDA	4,274	5,525	7,153	7,353	8,258	8,520	9,179	9,958	10,714	11,262	
% Margin	12%	15%	18%	18%	21%	21%	22%	23%	23%	23%	

Appendix D

SENSITIVITY ANALYSIS

Sensitivity Analysis													
Perpetuity Growth Method - Sensitivity Analysis						EBITDA Multiple Method - Sensitivity Analysis							
Enterprise Value in Millions of USD						Enterprise Value in Millions of USD							
Perpetuity Growth						Terminal EBITDA Multiple							
	2%	3%	3%	4%	4%		8.9x	10.4x	11.9x	13.4x	14.9x		
Discount	8%	132,034	141,889	153,745	168,281	186,518	8%	99,890	111,509	123,128	134,746	146,365	
	9%	121,688	129,857	139,532	151,172	165,441		97,964	109,317	120,671	132,024	143,378	
Rate	9%	112,845	119,708	<b>127,728</b>	137,227	148,655	Rate	9%	96,086	107,182	<b>118,278</b>	129,374	140,469
(WACC)	10%	105,202	111,032	117,771	125,646	134,973	(WACC)	10%	94,258	105,103	115,947	126,792	137,637
	10%	98,530	103,534	109,259	115,876	123,609		10%	92,476	103,076	113,677	124,278	134,879
Value in USD						Value in USD							
	2%	3%	3%	4%	4%		8.9x	10.4x	11.9x	13.4x	14.9x		
	8%	166.94	179.89	195.46	214.55	238.51	8%	124.72	139.98	155.24	170.50	185.77	
	9%	153.35	164.08	176.79	192.08	210.82		122.19	137.10	152.02	166.93	181.84	
	9%	141.74	150.75	<b>161.29</b>	173.76	188.77	9%	119.73	134.30	<b>148.87</b>	163.45	178.02	
	10%	131.70	139.36	148.21	158.55	170.80	10%	117.32	131.57	145.81	160.06	174.30	
	10%	122.94	129.51	137.03	145.72	155.88	10%	114.98	128.91	142.83	156.75	170.68	
Upside Potential						Upside Potential							
	2%	3%	3%	4%	4%		8.9x	10.4x	11.9x	13.4x	14.9x		
	8%	45%	57%	70%	87%	108%	8%	9%	22%	35%	48%	62%	
	9%	34%	43%	54%	67%	84%		9%	6%	19%	32%	45%	
	9%	23%	31%	<b>40%</b>	51%	64%	9%	4%	17%	<b>30%</b>	42%	55%	
	10%	15%	21%	29%	38%	49%	10%	2%	15%	27%	39%	52%	
	10%	7%	13%	19%	27%	36%	10%	0%	12%	24%	36%	49%	
Implied Exit EV / EBITDA Multiple						Implied Perpetuity Growth							
	2%	3%	3%	4%	4%		8.9x	10.4x	11.9x	13.4x	14.9x		
	8%	13.05	14.32	15.85	17.73	20.08	8%	-0.4%	0.8%	1.6%	2.3%	2.9%	
	9%	12.03	13.11	14.39	15.93	17.81		9%	0.1%	1.2%	2.1%	2.8%	
	9%	11.17	12.09	<b>13.18</b>	14.46	16.01	9%	0.5%	1.7%	<b>2.6%</b>	3.3%	3.8%	
	10%	10.41	11.22	12.15	13.24	14.53	10%	1.0%	2.2%	3.0%	3.7%	4.3%	
	10%	9.76	10.46	11.27	12.21	13.31	10%	1.5%	2.6%	3.5%	4.2%	4.8%	

## Appendix E

### INCOME STATEMENT

Fiscal year ends in December. USD in millions except per share data:	2011-12	2012-12	2013-12	2014-12	2015-12	TTM
Revenue	36529	37665	39055	40306	38581	38581
Cost of revenue	28556	28291	28364	28957	26747	26747
Gross profit	7973	9374	10691	11349	11834	11834
Operating expenses						
Sales, General and administrative	5399	5218	5190	5518	5006	5006
Other operating expenses	-112	-70				
Total operating expenses	5287	5148	5190	5518	5006	5006
Operating income	2686	4226	5501	5831	6828	6828
Interest Expense	376	351	327	318	310	310
Other income (expense)	-28		238	305	68	68
Income before taxes	2282	3875	5412	5818	6586	6586
Provision for income taxes	417	944	1450	1489	1739	1739
Net income from continuing operations	1865	2931	3962	4329	4847	4847
Net income from discontinuing ops	209					
Other	-7	-5	-38	-90	-79	-79
Net income	2067	2926	3924	4239	4768	4768
Net income available to common shareholders	2067	2926	3924	4239	4768	4768
Earnings per share						
Basic	2.65	3.74	4.99	5.4	6.11	6.11
Diluted	2.61	3.69	4.92	5.33	6.04	6.04
Weighted average shares outstanding						
Basic	781	782	786	784	780	780
Diluted	792	792	797	795	789	789
EBITDA	3615	5152	6728	7060	7779	7779



## Appendix F

### BALANCE SHEET

	2011-12	2012-12	2013-12	2014-12	2015-12
<b>Assets</b>					
<b>Current assets</b>					
Cash					
Cash and cash equivalents	3638	4634	6422	6953	5455
Short-term investments	484				2103
Total cash	4182	4634	6422	6953	7558
Receivables	6673	6714	7283	7515	7901
Inventories	4264	4235	4293	4405	4420
Deferred income taxes	460	669	849	722	
Other current assets	555	1346	2317	2590	174
Total current assets	16134	17598	21164	22191	20053
<b>Non-current assets</b>					
Property, plant and equipment					
Gross property, plant and equipment	13723	14212	14617	14502	14908
Accumulated Depreciation	-8919	-9211	-9339	-9119	-9119
Net property, plant and equipment	4804	5001	5278	5383	5789
Equity and other investments	494	623	393	465	517
Goodwill	11858	12425	13046	12788	15895
Intangible assets		2449	2514	2208	4577
Deferred income taxes	2132	1889	368	404	283
Other long-term assets	4386	1868	2672	2012	2202
Total non-current assets	23674	24255	24271	23260	29263
Total assets	39808	41853	45435	45451	49316
<b>Liabilities and stockholders' equity</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term debt	674	1101	2028	2637	6514
Accounts payable	4738	4736	5174	5365	5580
Taxes payable		780	489		467
Accrued liabilities	6863	1555	4318	6771	3947
Deferred revenues		2127	2172		1863
Other current liabilities		2746			
Total current liabilities	12275	13045	14181	14773	18371
<b>Non-current liabilities</b>					
Long-term debt	6881	6395	6801	6046	5554
Deferred taxes liabilities	676	628	804	236	558
Deferred revenues		47			99
Pensions and other benefits	1417	5805	1019	911	2987
Minority interest	96	90	112	127	135
Other long-term liabilities	7657	2868	5051	5701	3329
Total non-current liabilities	16727	15833	13787	13021	12662
Total liabilities	29002	28878	27968	27794	31033
<b>Stockholders' equity</b>					
Common stock	958	958	958	958	958
Additional paid-in capital	4157	4358	4682	5038	5377
Retained earnings	16083	17799	20383	23115	26147
Treasury stock	-8948	-8801	-9374	-9995	-11664
Accumulated other comprehensive income	-1444	-1339	818	-1459	-2535
Total stockholders' equity	10806	12975	17467	17657	18283
Total liabilities and stockholders' equity	39808	41853	45435	45451	49316



## Appendix G

### CASH FLOW STATEMENT

Fiscal year ends in December. USD in millions except per share data.	2011-12	2012-12	2013-12	2014-12	2015-12	TTM
<b>Cash Flows From Operating Activities</b>						
Net income	2067	2926	3924	4239	4768	4768
Depreciation & amortization	957	926	989	924	883	883
Investments losses (gains)			-195	-221		
Deferred income taxes	-331	84	262	132	315	315
Stock based compensation	168	170	170	187	175	175
Accounts receivable	-316	-119				
Inventory	-310	25	41	-200	230	230
Accounts payable	527	-13	352	307	-17	-17
Accrued liabilities	-54	-273	-201	181	-667	-667
Other working capital	25	-78	-786	-52	291	291
Other non-cash items	100	-131	-221	-473	-524	-524
<b>Net cash provided by operating activities</b>	<b>2833</b>	<b>3517</b>	<b>4335</b>	<b>5024</b>	<b>5454</b>	<b>5454</b>
<b>Cash Flows From Investing Activities</b>						
Investments in property, plant, and equipment	-798	-884	-947	-1094	-1073	-1073
Property, plant, and equipment reductions	6	5	15	18	15	15
Acquisitions, net	183	-417	-1130	156	-5227	-5227
Purchases of investments	-380	-702	-1220	-4074	-6714	-6714
Sales/Maturities of investments	354	559	1122	3288	6587	6587
Other investing activities	24	11	201	-170	-102	-102
<b>Net cash used for investing activities</b>	<b>-611</b>	<b>-1428</b>	<b>-1959</b>	<b>-1876</b>	<b>-6514</b>	<b>-6514</b>
<b>Cash Flows From Financing Activities</b>						
Debt issued	1690	102	1063	97	60	60
Debt repayment	-972	-1	-607	-609	-880	-880
Common stock issued	304	342	447	265	186	186
Common stock repurchased	-1085	-317	-1073	-924	-1884	-1884
Excess tax benefit from stock based compensation	42	56	132	102	81	81
Dividend paid	-1091	-1211	-1353	-1510	-1726	-1726
Other financing activities	-2	-177	958	307	4265	4265
<b>Net cash provided by (used for) financing activities</b>	<b>-1114</b>	<b>-1206</b>	<b>-433</b>	<b>-2272</b>	<b>102</b>	<b>102</b>
Effect of exchange rate changes	-60	53	-155	-339	-546	-546
<b>Net change in cash</b>	<b>1048</b>	<b>936</b>	<b>1788</b>	<b>537</b>	<b>-1504</b>	<b>-1504</b>
Cash at beginning of period	2650	3698	4634	6422	6959	6959
Cash at end of period	3698	4634	6422	6959	5455	5455
<b>Free Cash Flow</b>						
Operating cash flow	2833	3517	4335	5024	5454	5454
Capital expenditure	-798	-884	-947	-1094	-1073	-1073
<b>Free cash flow</b>	<b>2035</b>	<b>2633</b>	<b>3388</b>	<b>3930</b>	<b>4381</b>	<b>4381</b>

## Appendix H

### STOCK PERFORMANCE



Google Finance - Yahoo Finance - MSN Money

Disclaimer

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