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WINNING NOW, WINNING LATER

How Companies Can Win in the Short Term
While Investing for the Long Term

A PDF COMPANION TO THE AUDIOBOOK

Plan for Today *and* Tomorrow

The Magic of Holding Fixed Costs Constant While Growing Sales

FIXED COSTS CONSTANT

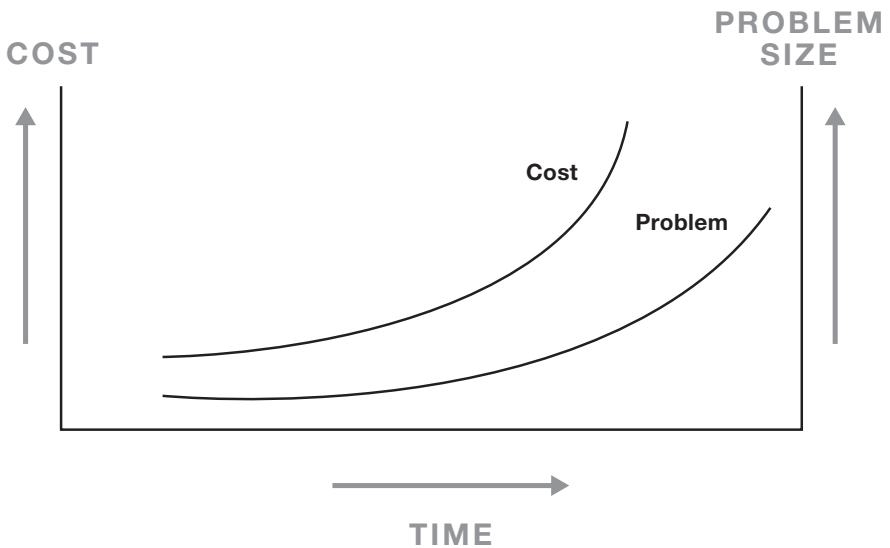
	Year 1	Year 2
Sales	100	103
Variable Margin @40%	40	41
Fixed Costs	30	30
Operating Margin	10	11
		10% growth

FIXED COSTS GROW WITH SALES

	Year 1	Year 2
Sales	100	103
Variable Margin @40%	40	41
Fixed Costs	30	31
Operating Margin	10	10
		0% growth

Resolve Serious Threats to the Business

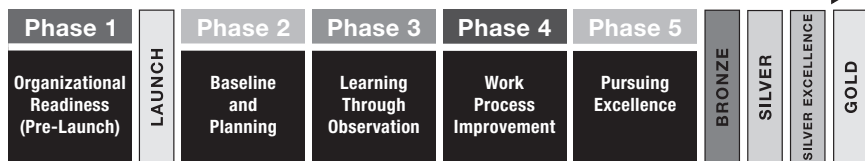
WHAT HAPPENS TO PROBLEMS AND THE
RESOURCES REQUIRED TO ADDRESS THEM OVER TIME



Focus on Process



HOS Overview – Implementation Framework

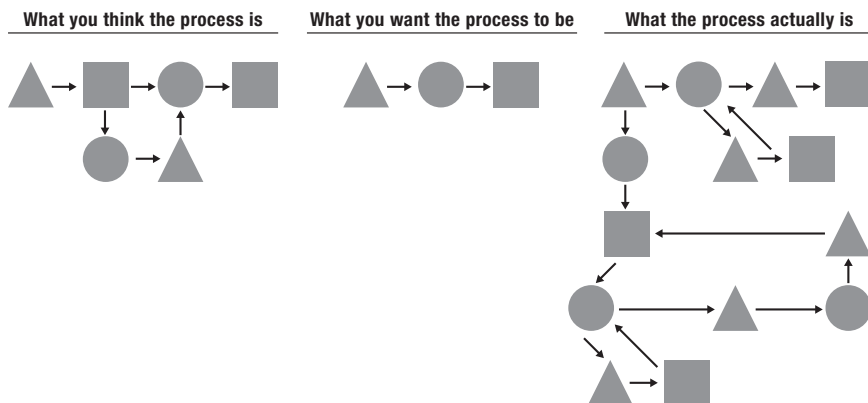


- 1 Getting ready. Leadership is ready to embark and sustain the journey
- 2 Baseline analysis and prioritize opportunities. Establish your deployment
- 3 Begin to execute your changes to create future state organization
- 4 Implement future state to achieve targeted results
- 5 Site management operating system in place to drive continuous improvement culture
- B Integrating leadership beyond facility walls across all functions with all employees
- S Leverage and improve operating system supporting enterprise
- G Bringing all best practices/processes into a single focus to grow faster than competition

Structured Approach to Deployment

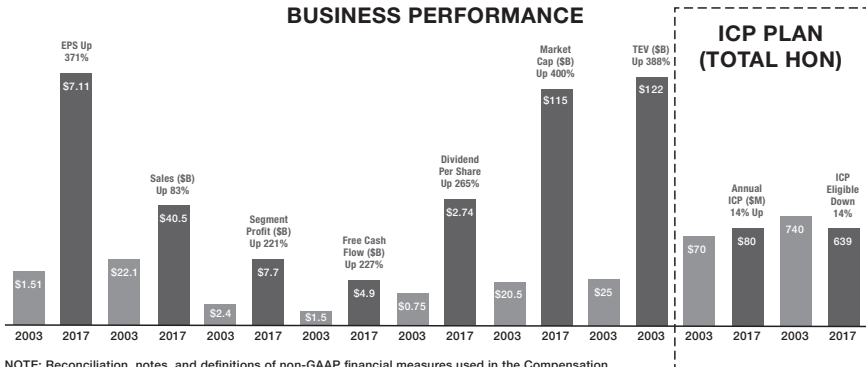
Our graduated framework for implementing HOS, as it had evolved by 2016

WHAT PROCESSES TRULY ARE VS. WHAT WE MIGHT THINK OR WISH THEY WERE



Get and Keep the Right Leaders— But Not Too Many of Them

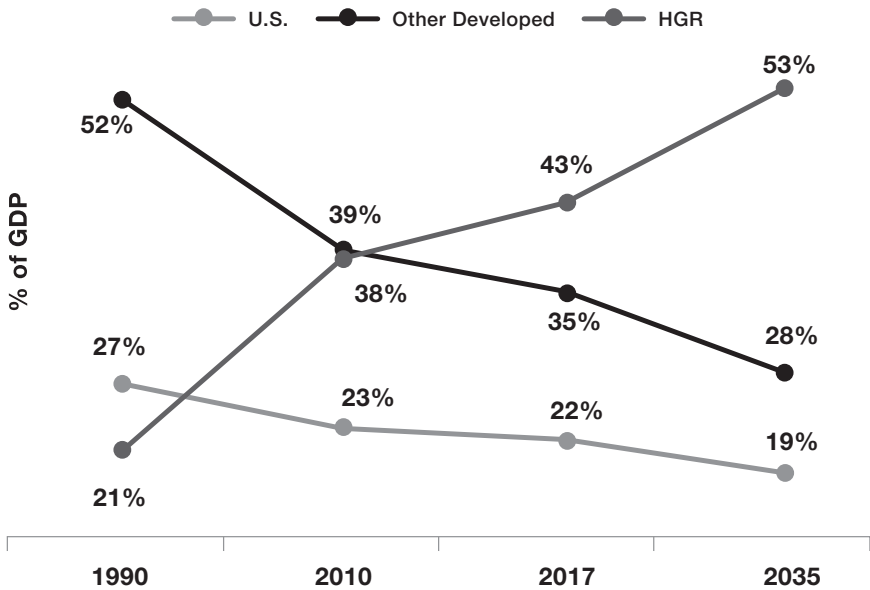
HONEYWELL'S PERFORMANCE IN 2003 VS. 2017



NOTE: Reconciliation, notes, and definitions of non-GAAP financial measures used in the Compensation Discussion and Analysis section and elsewhere in this proxy statement, other than as part of disclosure of target levels, can be found on page 30 or in Appendix B.

Go Big on Growth

GLOBAL GDP PERCENTAGES FROM 1990-2035



Source: Global Insight

Upgrade Your Portfolio

DISCIPLINED M&A PROCESS

Identification → Due Dilligence → Valuation → Integration

Then: Before Process Overhaul

- Hey, That's for Sale
- Deal is the Strategy

- Zeal for the Deal
- Ignore Findings

- Sales Synergies Incl.
- Realization Rate Low

- Joes' Retiring . . .
- Delayed Start

Now: Last 15 Years

- Strategy Comes First
- Constant Screening
- Deeper Broader Pipe

Robust Pipeline

- Functional Expertise
- Relentless Discipline

Kill Bad Deals

- Cost Synergies Only
- Rigorously Scoped
- Price Part of Strategy

Never Overpay

- Best People Full-Time
- Mgmt. Development
- Planning Starts at Due Diligence

Great Track Record

Smartly Adding to Great Positions in Good Industries

Take Control of the Downturns

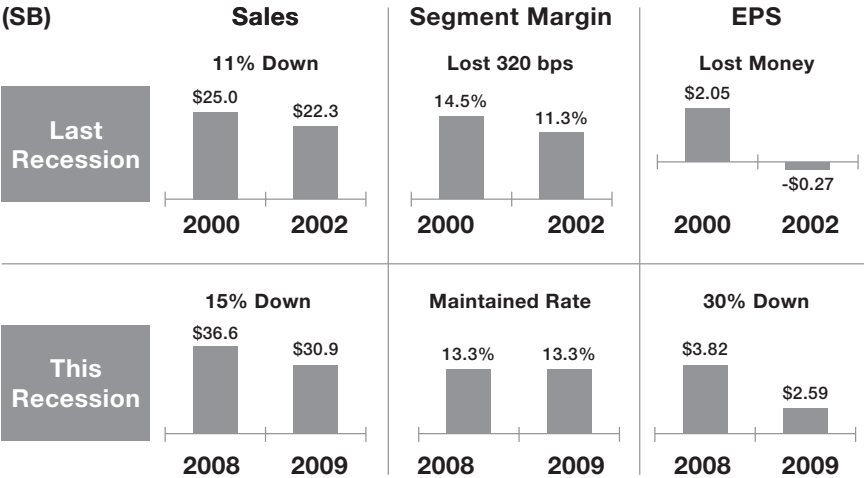
LIST OF COMMON COST-CUTTING RESPONSES TO RECESSIONS

COST CATEGORIES	PRO	CONS
Direct Material (material that goes directly into the manufacture of your products)	<ul style="list-style-type: none"> • If you can get price reductions from suppliers, terrific! 	<ul style="list-style-type: none"> • It's tough to do, as most companies have contracts in place with suppliers. But you should definitely try. • The impact of these cuts are delayed if you have to go through an inventory account.
Indirect Material/ Services (payments to suppliers other than material that goes directly into the product)	<ul style="list-style-type: none"> • This is a great move to make because by reducing usage, you cut costs immediately. 	<ul style="list-style-type: none"> • As long as these cuts don't impact customers, then they're fair game.
Temporary or Contract Employees	<ul style="list-style-type: none"> • These cuts lower your costs immediately. They work if you always maintain a small portion (10–20 percent) of your workforce as temporary/ contract while observing applicable state/federal laws regarding classification. 	<ul style="list-style-type: none"> • Make sure it doesn't affect customers. • You have to keep an eye on legal classifications.

Wages/Salaries to Employees

• Layoffs	• These cuts affect only a small percent (10–20 percent) of the workforce.	• The financial returns aren't great. • Your organization will accrue a big expense up front, with the potential for survivor guilt among remaining employees. • Layoffs hurt your industrial base, compromising your ability to respond during the coming recovery.
• Furloughs	• These are a lot less costly in financial terms. • They preserve your industrial base for recovery. • When recovery begins, employees feel better about it.	• Furloughs affect 100 percent of the workforce. • They are more difficult to administer because laws vary in different states and countries.
Benefits	• Employees don't feel the effects of benefits cuts immediately. • The cost savings show up quickly in company financials.	• Employees won't like benefits cuts, but they will recognize that such cuts are better than more furloughs or layoffs.
Depreciation/ Amortization	• As long as it doesn't affect customers, it's much less painful.	• Difficult to impact because most of this is driven by past expenditures.
Bonuses	• Employees see bonus reduction as essential, a sign that "we're all in it together." • Cuts in bonuses have an immediate impact on financials.	• Leaders feel like they're working harder than ever for a lot less. You can minimize resentment by finding a way to help leaders over time (for instance, by issuing bonuses in stock).
Direct Support to Customer (cooperative advertising, etc.)	• Cuts in customer support have an immediate financial impact.	• Customer impact cuts are a really bad idea, as they could cause customers to flee, hurting you over the long term.

COMPARISON OF HONEYWELL RECESSION RECOVERIES



*Last recession shown as originally reported; 2008 and 2009 on proforma basis

Source: “Honeywell: Lessons Learned from the Recession of 2008–2009,” Unpublished Honeywell white paper

HONEYWELL’S RECOVERY COMPARED TO THE S&P 500

