

Honeywell at a portfolio crossroads: Should Aerospace stand alone?

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Decision scope: Whether Honeywell's board should authorize a time-bounded Aerospace separation and stand-alone feasibility plan alongside the announced Advanced Materials spin, or keep Aerospace within an integrated Honeywell and sharpen business-level accountability.

Case convention: You are advising a hypothetical board strategy committee. The public record establishes that Aerospace separation was under review; it does not establish the board's private alternatives, adviser recommendation, or decision. Treat the alternatives below as a recommendation framework, not a disclosed board menu.

An open question, with other work already underway

At 6:00 a.m. Eastern on December 16, Honeywell said its board was continuing a comprehensive portfolio evaluation and exploring additional alternatives, "including the potential separation" of Aerospace. Feasibility and possible timing remained under evaluation, with an update expected alongside fourth-quarter results. The release did not announce approval of an Aerospace separation. [P1]

The question arrived during a busy period. Honeywell had announced in October a plan to spin off Advanced Materials as a U.S. public company, subject to customary conditions. It had also agreed to sell its Personal Protective Equipment business and reported about \$9 billion of acquisitions since December 2023. Those actions included the Access Solutions acquisition, whose results were contributing to Building Automation. [P1] [P3] [P4]

The board therefore faced two linked choices. Would an Aerospace workstream identify enough potential value to justify the time, cost, and management attention of detailed separation planning? And how should that work be sequenced with the Advanced Materials plan, the PPE divestiture, and the integration of recently acquired businesses?

Businesses with different recent performance

Honeywell reported four operating segments for the third quarter of 2024. Aerospace Technologies combined a large business with strong recent growth and a higher reported segment margin. Other segments showed different growth and acquisition profiles.

Exhibit 1. Honeywell segment results, Q3 2024

Segment	Net sales, Q3 2024	Change from Q3 2023	Segment profit, Q3 2024	Segment margin, Q3 2024	Context
Aerospace Technologies	\$3.912bn	+12% reported; +10% organic	\$1.082bn	27.7%	Ninth consecutive quarter of double-digit organic sales growth, according to Honeywell
Industrial Automation	\$2.501bn	–5% reported and organic	\$508m	20.3%	Management cited softer warehouse/workflow and sensing/safety volumes; margin rose 60 basis points
Building Automation	\$1.745bn	+14% reported; +3% organic	\$452m	25.9%	Access Solutions contributed \$177m of quarterly sales
Energy and Sustainability Solutions	\$1.563bn	+1% reported	\$383m	24.5%	Includes businesses with different end markets, including UOP and Advanced Materials

Source: Honeywell 2024 Q3 Form 10-Q, Note 18, printed pp. 49-50; Q3 results release, Table 3 and “Third-Quarter Performance.” Segment profit is a company-defined non-GAAP measure. In 2024 Honeywell changed the segment-profit calculation and recast historical periods; the 10-Q describes the updated exclusions at printed p. 43. Organic sales growth is also company-defined. These figures describe reported segments; they do not show stand-alone cash flow, return on invested capital, or the effect of a different ownership boundary. [P2] [P3]

The numbers offered no simple answer. Aerospace’s growth and margin could make its prospects easier for investors and managers to assess on a stand-alone basis. But the weaker reported sales trend in Industrial Automation does not demonstrate that Aerospace’s place in Honeywell caused the weakness. Nor does a segment margin reveal the cash, systems, leadership, or corporate support Aerospace would need outside the parent.

Honeywell’s 2023 Form 10-K described businesses with different products, customers, end markets, and competitors. It also presented Honeywell as an integrated operating company aligned with automation, aviation, and energy-transition themes. The reporting structure in that filing predates the 2024 segment realignment, so use it for business descriptions rather than direct comparison with Exhibit 1. [P5]

Honeywell’s Q3 filing separately reported “Corporate and All Other,” which included unallocated corporate costs and holding-company interest. The company disclosed no stand-alone cost

schedule, separation cost estimate, or transition-services plan for Aerospace. The case team could not infer from allocated parent costs how much expense would disappear, remain stranded, or need to be recreated after a separation. [P2]

Two explanations for the portfolio question

Investors and directors could see a focus opportunity. Aerospace has its own customers, product cycles, aftermarket activity, defense exposure, and capital needs. A separate company could give its leaders and investors a more direct view of those economics. It might sharpen accountability, clarify investment priorities, and make performance easier to benchmark. Yet the public information did not quantify any incremental operating improvement or valuation benefit for Honeywell.

An integrated company could also create value. Common ownership may support shared engineering, digital systems, procurement, customer access, corporate functions, and internal funding. Some capabilities might be retained through contracts after a separation, while others could be harder or more costly to reproduce. Honeywell had not disclosed which benefits depended on common ownership, how large they were, or which might be preserved through agreements.

Research cautions against treating a diversification discount as proof that separation creates value. In a historical sample of U.S. spin-offs, cross-industry cases had stronger average announcement returns and operating changes than own-industry cases. The sample was selected, the “cross-industry” definition was coarse, and the results cannot forecast Honeywell’s value. Other research models firms’ choice to diversify and finds that estimated discounts can shrink, disappear, or reverse after accounting for firm characteristics and selection. Together, the studies make the board’s task specific: identify what focus mechanism a separation would unlock, then compare it with the benefits and costs of shared ownership. [A1] [A2]

GE Aerospace offered a limited industry reference point. It was a standalone public aerospace company by 2024. In Q3 it reported \$9.8 billion in GAAP revenue and \$8.9 billion in adjusted revenue; \$1.9 billion of GAAP profit and a 19.2% GAAP margin; and \$1.8 billion of non-GAAP operating profit and a 20.3% non-GAAP operating margin. It also reported 28% order growth. These definitions differ and should not be compared as if they were like-for-like. GE’s scale, product mix, installed base, and separation history also make it an illustration of standalone reporting, not a matched control for Honeywell. [P6]

Elliott Investment Management had urged Honeywell to separate Aerospace and Automation. In a November letter to the board, Elliott said it had invested more than \$5 billion and modeled 51-75% potential share-price upside over two years under its scenario. The estimate was an interested investor’s analysis, not company guidance or an independent valuation. Honeywell’s December release did not endorse it. [P7] [P1]

The board’s next step

Assume the strategy committee must recommend the board’s next step at the December 16 cutoff. It can authorize a **time-bounded Aerospace feasibility workstream** alongside the Advanced Materials spin, with explicit milestones and a stop/go decision. Or it can **retain an integrated Honeywell** and require a focused operating and capital-allocation plan, including clearer segment accountability and reporting.

If the committee authorizes feasibility work, it must decide what the work should establish before the board considers execution. A net-value assessment would need to account for

stand-alone corporate functions, stranded costs, transition services, systems, intellectual property, taxes, debt and pension allocation, capital needs, financing, customers, suppliers, and employees. It would also need to test which focus benefits require separation and which could be obtained inside Honeywell.

If the committee retains the integrated structure, it must specify how the operating model would address the concern behind the review. Possible actions include stronger segment-level capital accountability, clearer disclosure of business performance and invested capital, and distinct business plans with measurable outcomes. The committee would need to test whether those changes can create the desired focus while keeping cross-business capabilities and avoiding added transaction demands.

Decision assignment

Recommend the committee's next step and explain:

1. What evidence supports or weakens a focus case for separating Aerospace?
2. Which potential benefits of integration appear important, and what evidence would show whether they depend on common ownership?
3. What costs, obligations, and execution risks belong in a separation assessment?
4. What milestones, information requests, and stop/go criteria should govern a time-bounded feasibility workstream-or the integrated-company improvement plan?
5. How should the board account for the Advanced Materials spin, PPE divestiture, and recent acquisitions when setting timing and management capacity?

No public source available at the cutoff supplied segment free cash flow and invested capital on a comparable basis, stand-alone forecasts, shared-cost allocations, transaction or TSA estimates, tax and financing analysis, or independent sum-of-the-parts sensitivities. State assumptions clearly, and distinguish reported facts from hypotheses about what a new structure might change.

Sources and cutoff

The cutoff is December 16, 2024, 6:00 a.m. Eastern Time. The board's review was ongoing at that point. Later decisions, announcements, filings, and realized results are excluded.

- **[P1]** Honeywell, "Honeywell Explores Strategic Alternatives for Unlocking Shareholder Value; Continues Review of Transformational Portfolio Actions," Dec. 16, 2024, opening paragraphs and CEO statements. [Company release](#)
- **[P2]** Honeywell, Form 10-Q, quarter ended Sept. 30, 2024, filed Oct. 24, 2024, MD&A printed pp. 43-48 and Note 18 printed pp. 49-50. [SEC filing](#)
- **[P3]** Honeywell, "Honeywell Reports Third Quarter Results; Updates 2024 Guidance," Oct. 24, 2024, Tables 2-3 and "Third-Quarter Performance." [Company release](#)
- **[P4]** Honeywell, "Honeywell Announces Plan to Spin Off Advanced Materials Business to Shareowners," Oct. 8, 2024, opening and transaction-conditions sections. [SEC release exhibit](#)
- **[P5]** Honeywell, 2023 Form 10-K, filed Feb. 16, 2024, Part I, Item 1, printed pp. 4-8. [SEC filing](#)
- **[P6]** GE Aerospace, "GE Aerospace releases its 3Q'24 results," Oct. 22, 2024, financial highlights and non-GAAP footnote. [Company release](#)

- **[P7]** Elliott Investment Management, letter to Honeywell’s board, Nov. 12, 2024, pp. 1-4 and valuation exhibits. [Letter PDF](#)
- **[A1]** Lane Daley, Vikas Mehrotra, and Ranjini Sivakumar, “Corporate Focus and Value Creation: Evidence from Spinoffs,” *Journal of Financial Economics* 45(2), 257-281 (1997), sample and methods pp. 258-264; Table 2, p. 265; Table 3, pp. 268-271. [DOI](#)
- **[A2]** José Manuel Campa and Simi Kedia, “Explaining the Diversification Discount,” *Journal of Finance* 57(4), 1731-1762 (2002); April 1999 working-paper draft, data/methods pp. 10-20 and results pp. 22-34; published abstract cross-check. [DOI](#)

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