Honeywell Aerospace
Third Quarter 2026 Earnings Conference Call
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Presenters
Sean Meakim, Vice President of Investor Relations
Jim Currier, Chief Executive Officer
Josh Jepsen, Chief Financial Officer

Q&A Participants
Kristine Liwag - Morgan Stanley
Robert Stallard - Vertical Research Partners
Ken Herbert - RBC Capital Markets
Scott Mikus - Melius Research
Mike Walton - Wolfe Research
Sheila Kahyaoglu - Jefferies
Seth Seifman - J.P. Morgan
David Strauss - Wells Fargo

Operator
Thank you for standing by and welcome to the Honeywell Aerospace Third Quarter 2026 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's call is being recorded.

I'll now turn the call over to Sean Meakim, Vice President of Investor Relations. Please go ahead.

Sean Meakim
Thank you. Good afternoon and welcome to Honeywell Aerospace's Third Quarter 2026 Earnings Call. On the call with me today are Chief Executive Officer, Jim Currier, and Chief Financial Officer Josh Jepsen.

Some statements in today's presentation, including those regarding our outlook and expectations, are forward-looking in nature and our actual results may differ, materially. Please see the cautionary statement on Slide 2 and the risk factors in our Form 10-Q, available on our Investor Relations website for more information on these factors. This webcast and the presentation materials, including non-GAAP reconciliations, are also available on our website.

This afternoon, we will review our financial results for the third quarter, provide an update on full year 2026, and then open it up for questions.

Now I'll turn the call over to our CEO, Jim Currier.

Jim Currier
Thanks, Sean. Good afternoon, everyone. We appreciate your joining us today. We'll start our presentation on Slide 3.

In Honeywell Aerospace's first quarter, operating independently, we finished ahead of the expectations we shared with you in August. Sales increased 3% sequentially, led by commercial aftermarket, as our mechanical output improved from the second quarter. Accelerating output to better serve our customers and drive our organic growth remains my number one priority.

Progress against our supply chain transformation initiatives continues to be the focus for our management team, and I'll provide a detailed supply chain progress report later in this presentation. We are dedicated to using our increased financial and operational flexibility to accelerate investments and to build stronger partnerships with all our suppliers.

With an increasing number of Honeywell Aerospace employees present at supplier sites, globally, we are sharing the core pillars of our operating system focused on driving productivity and output growth. I have personally visited facilities and met with the management teams of each of the 10 suppliers that are most essential to deliver against the robust demand we continue to see for our solutions.

In the third quarter, we grew orders across all end markets, compared to the prior year, with Defense and Space and commercial aftermarket up double digits. Book to bill was 1.3 in the quarter and 1.1, over the last 12 months. Our priority and commitment to improve supply will unlock our ability to convert these orders into faster sales growth in 2027, and beyond.

Consistent with the capital allocation framework we laid out at our June Investor Day, paying a competitive dividend is amongst our priorities. Today, we announced that Honeywell Aerospace's board has declared the company's first quarterly cash dividend of $0.40 per share, which will be payable in December, and we expect to increase that payment over time, as the business grows.

The dividend demonstrates our confidence in the path ahead. We expect to generate durable free cash flow based on our visibility into demand in the coming years, and we are executing on a supply chain transformation we believe to be largely within our control.

In today's presentation, Josh and I will discuss our performance in the quarter, progress against strategic priorities, outlook for the fourth quarter, and initial thoughts on 2027. Let's turn to Slide 4 to discuss how we're creating value through a consistent innovation-led growth strategy.

Led by the same three strategic priorities in each of our segments and end markets, our organization is generating ongoing customer demand and progressing operational improvement initiatives.

First, expand leadership in attractive end markets. We continuously develop new retrofit mods and upgrades, or RMUs, for our installed base around the world. At any given time, we are working on 40 or more solutions that provide added performance, efficiency and safety to the global commercial and defense fleets. RMU sales rely primarily on our innovation flywheel's ability to deliver value to our customer, base rather than fleet growth or utilization.

During the third quarter, Omni Taxi Aero, a leading offshore helicopter operator in Brazil, selected our industry-leading weather radar system for its entire AW139 base to improve both the reliability of its operations and the safety of its crews and passengers. The system gives pilots earlier, clearer warnings and operates automatically to reduce workload during high-tempo operations. Feature updates are downloaded over the air, without additional downtime, increasing aircraft availability and customer returns on investment.

Second, invest in differentiated technology platforms. We are advancing our capabilities in resilient navigation and autonomy, both of which are increasingly necessary because of growing geographies in which satellite signals are degraded, jammed, or spoofed.

In September, we successfully demonstrated our Kestrel navigation system designed specifically for unmanned drones. Military forces are relying more and more on these rapidly deployable platforms for a variety of missions. Forty percent smaller and lighter than Honeywell Aerospace's traditional military-grade navigation system, Kestrel delivers reliable navigation in challenging environments. The flight test of an off-the-shelf Group 2 drone validated the system's unique capabilities, with initial deliveries planned for 2027.

Third, strengthen operational capabilities to unlock further growth. In order to build the resiliency and throughput in our supply base necessary to deliver more consistently for our customers, we are increasing investments in increasing insourcing, multi-sourcing, and supplier tooling initiatives. 2026 marks a significant milestone in our multi-sourcing journey that began in earnest when I assumed leadership of this business, just over three years ago.

At that time, less than 15% of our annual material spend had more than one active source. Reducing dependence on sole-source suppliers reduces risk of disruptions, while also adding to our overall capacity as our growing demand dictates.

By year-end, we expect to have doubled the percentage of multi-source spend from 2023 to north of 30%. We're not only adding qualifying new suppliers in constrained mechanical components, we're also adding suppliers in advance of increasing demand for electrical components such as semiconductors and printed wire boards. We expect growing investments over the next couple of years will take multi-sourcing to more than half of our material spend

by the end of the decade. On Slide 5, I'll provide a broader update on our supply chain transformation.

Last month, we presented a scorecard for our supply base to outline where we have significant bottlenecks, their root causes and the actions we are taking to alleviate them. We promised to regularly share our progress with you, and today, I'll provide an overview of our supplier performance in the third quarter.

I would like to remind you that the vast majority of our more than 3,000 suppliers are delivering to us on plan. Only about 70 critical and constrained suppliers have not been consistently meeting our needs, and we have designated that group to receive additional management attention in individualized action plans. Of that group, around 10 have been most responsible for pacing output growth.

Our roughly 70 watch list suppliers are concentrated into four mechanical component categories: complex machining, castings, forgings and bearings. We are tracking each on a number of KPIs, with a couple of most critical being supplied output gap to need and supplier output growth. Driving improvements in these KPIs will unlock our output to customers and accelerate sales.

On the left-hand side of the page, you can see that our suppliers produced more of what we needed from them across the four combined categories compared to last quarter, shrinking their output gap to our need.

On the right-hand side of this page, you'll see that this improvement has not yet moved up our color-coded ratings, but we are clearly moving in the right direction. In complex machining, we have deployed our own labor force into supplier facilities and also supported hiring, which drove higher year-over-year growth, compared to the prior quarter. We grew a key supplier's workforce by over 20% from the middle of the third quarter to the beginning of the fourth, which led to record weekly shipments beginning in October.

In castings, our current suppliers are increasing their deliveries to us as we qualify new sources. Though their growth slowed a little from the prior quarter due to production scheduling, pushing us barely into yellow territory in 3Q, nothing has fundamentally changed, and we are encouraged by recent actions.

In forgings, year-to-date output is up double digits, with those suppliers making significant strides towards producing at the level we need. We also secured additional forging supply for years to come.

Finally, in bearings, which has been the most difficult category for us this year, a second-source supplier ramped its production considerably, quarter over quarter, after difficulty starting up its

manufacturing lines. We now have line of sight to this supplier eliminating its past dues to us, by early 2027.

While we are making progress against our supply chain transformation plans, we know that we need to move faster to fulfill our commitments to our customers. We are exploring every avenue for doing so and look forward to sharing developments with you in the coming quarters.

Now let's turn to Slide 6 to discuss our strong commercial momentum that's creating the ongoing need for more supply.

Since we reported our second quarter results in early August, our business has generated over $5 billion in incremental customer lifetime wins, bringing our year-to-date total to more than $20 billion, on top of the more than 90 billion from the prior four years. We are seeing success through our commercial and defense portfolios across all of our business segments, focusing on our core innovation pillars of electrification, autonomy, and safety.

Our defense solutions are poised to drive significant content growth in advanced combat platforms such as the Collaborative Combat Aircraft, or CCA. In September, we announced that the US Air Force down-selected our Skyshot 1600 engine for its Autonomous Collaborative Platform Program.

This small thrust engine is designed to meet all of the mission-critical needs of the CCA and unmanned aircraft systems, while also offering the low-cost modular design necessary to produce, install, and maintain a fleet at the scale and speed demanded by today's militaries.
Its versatile and flexible architecture can serve multiple platform classes, demonstrating the efficiency of our develop-once, deploy-everywhere approach to technology development.

During the quarter, our defense business also secured new awards exceeding $2 billion in lifetime value for multiple missiles and munitions platforms. The supplier framework agreement we signed with the Department of War in March and growing global demand are leading to firm contracts, with more expected to come.

Lastly, our aftermarket team continues to advance commercial opportunities for our SURF-A Surface Alert solution, which sends real-time alerts using GPS data, existing equipment and advanced software analytics to prevent runway collisions. We have entered into a new agreement with our hometown Phoenix Aviation Department to explore taking our technology beyond the cockpit, where it supports pilots, to ground vehicle operators. This represents a new frontier in runway safety that would further reduce the risk of runway incursions and accidents.

At the same time, we are expecting FAA certification of SURF-A for certain Boeing aircraft this quarter, following the announced Aeromexico agreement to install the solution across more than 100 of its aircraft.

To service our increasing number of wins and those to come, we are committed to investing in growing our supply and manufacturing base. Please turn to Slide 7 for an overview of a project set to benefit our controls systems customers.

For decades, Arizona has been the hub of our innovation and manufacturing capabilities. Today, we announced a major expansion of our existing Tempe campus with a state-of-the-art new facility that reinforces our commitment to our customers around the world who depend on Honeywell Aerospace solutions, every day. The $500 million, 300,000 square foot space is set to open in late 2028 and will allow us to serve current production and future demand for control systems technologies.

Our next-generation products, including Assure Advanced Actuation and Attune Vapor Cycle cooling, with over $15 billion of customer wins to date, require new capacity for both contracted business and the pursuit of new commercial and defense platforms such as next-generation narrowbodies and sixth-generation fighter jets.

The cutting-edge facility will set the standard for future Honeywell Aerospace manufacturing capabilities. It will include modular robotics, automated inspection, AI-enabled production optimization, digital twins, and other productivity-enhancing technologies.

The extra capacity will add supply chain resiliency, supporting increased production and providing room for more vertically integrated operations, which will reduce supplier dependencies in complex machining.

This financially attractive project demonstrates that we are prioritizing investments to drive organic growth in alignment with our disciplined capital allocation strategy.

And with that, I'll turn it over to Josh to discuss our quarterly results and updated outlook, beginning on Slide 8.

Josh Jepsen
Thanks, Jim. Honeywell Aerospace third quarter sales grew 2.4% organically from the prior year to $4.6 billion. Growth exceeded our expectations for sales to be flat to up slightly as mechanical output lifted quarter over quarter, due to the efforts Jim described earlier in the presentation. We also closed a few deals earlier than anticipated worth about a point.

Customer demand growth continued to significantly outpace the capabilities of our supply base with trailing 12-month orders increasing 9% and a book-to-bill of 1.1.

Our backlog increased 12% from a year ago to more than $19 billion. During the quarter, constraints had a larger impact on our Defense and Space end market, particularly the international defense business, as a result of prioritizing the domestic market, which was up about 3% in the quarter.

Our overall manufacturing output grew 5% versus the prior quarter and 2% versus the prior year. Improvements in our critical and constrained supplier KPIs will lead to stronger output over time, though the relationship will not always be linear as we need every mechanical component to ship one of our systems.

Third quarter adjusted EBIT was $1.2 billion, growing 4% against pro forma standalone adjusted EBIT in the prior year. We consider this comparison the most relevant to evaluate our performance as it incorporates the estimated standalone cost of the business from a year ago. Adjusted EBIT benefited from approximately $50 million of net IEEPA tariff refunds that added over 100 basis points to our margin. Note that the benefit of these tariff refunds was already reflected in the second half guidance that we provided in August.

Like last quarter, supply shortages led to a higher percentage of our output going to our rapidly growing commercial OE and domestic defense customers, leading to unfavorable mix, year over year. You can find additional details of changes to our adjusted EBIT in a bridge in the appendix of this presentation.

Adjusted earnings per share was $2.21 and free cash flow was half a billion dollars. We do not consider prior year comparisons for these financial metrics to be meaningful because of separation-related impacts.

Today, we announced that our Board of Directors has declared Honeywell Aerospace's first quarterly cash dividend payment of $0.40 per share. The annualized payout ratio of approximately 20% of our estimated 2026 pro forma standalone adjusted EPS offers shareholders a competitive dividend rate, fulfilling a commitment we made at Investor Day. It also allows the company continued financial flexibility to pursue our capital allocation priorities, while maintaining a strong balance sheet.

First and foremost, we need to invest more to drive organic growth by increasing CapEx into our supply and manufacturing bases. Second, we want to increase our dividend over time supported by continued growth in our earnings. Third, we're looking to selectively pursue acquisitions with our current focus on small deals that could quickly bolster the capacity and resilience of our supply chain, as well as evaluating ways to further optimize our portfolio.
Lastly, we seek to opportunistically repurchase our shares.

Please turn to Slide 9, where I'll discuss third quarter performance by end market. Commercial OE sales were up 8% organically versus the prior year, as commercial air transport customers grew their monthly build rates substantially, while business aviation customers pursued steady delivery growth. Additionally, our selectable equipment volumes increased, consistent with our higher capture rate of selectable content value, during the past several years.

Third quarter sales to commercial aftermarket grew 2% year over year, despite slower global revenue passenger mile growth in commercial air transport in recent months. Aftermarket

demand remains robust with aircraft retirements staying at low levels and business aviation flight activity remaining resilient in the face of higher fuel prices.

Third quarter orders increased 12% from the previous year, though supply constraints did not allow us to fulfill all that demand. As a reminder, we were up against a particularly difficult comp in 2025 when sales increased 23%.

Partially offsetting this impact, a few deals we had anticipated closing later this year ended up being completed during the quarter, which pushed growth into positive territory.

Defense and Space sales increased 1% compared to the prior year. Case and Civitanavi led with strong double-digit growth as we are delivering on the synergies from these acquisitions. Civitanavi recently received a large order from an existing European Honeywell Aerospace customer, which will generate robust performance through 2027.

Defense demand continues to outpace our supply with trailing 12-month orders up 18%. The strength of our domestic defense demand is intensifying supply constraints in this end market and deferring accretive international sales, which declined in the quarter. A non-aerospace restricted program also continues to wind down as anticipated, presenting a couple of points of year-over-year headwind to Defense and Space.

Now let's flip to Slide 10 to review our updated 2026 outlook. We are maintaining our organic growth guidance for the year of 4% to 5%, as well as the growth expectations across each of our end markets.

Our expectations for sales growth in the second half of 2026 remain intact. While we're encouraged by the progress on our supply chain, continued order growth and modest outperformance in 3Q, we believe it's prudent to maintain our guidance range. This implies our fourth quarter organic sales will be modestly below the full-year range.

Our definition of organic growth excludes the contra-revenue impact of the Flexjet-related settlements in our Engine and Power Systems aftermarket business in the prior year.

We expect fourth quarter output growth to be consistent with levels seen in the first three quarters of the year, as the benefits of our supply chain actions will step up in 2027. Similarly, we still anticipate mix headwinds will continue from a higher portion of our supply going to commercial OE customers versus commercial aftermarket and to domestic defense customers versus international.

Moving to pro forma standalone adjusted EBIT, we are narrowing our guidance range for the year around the same midpoint of $4.4 billion. For the fourth quarter, we do not currently anticipate any IEEPA tariff refunds, presenting a more than 100-basis-point sequential margin

headwind, compared to the third quarter. As a result, fourth quarter margin should be more similar to the first half of the year.

We are increasing our 2026 pro forma standalone adjusted EPS guidance range to $7.85 to $8, attributable to lower below-the-line expenses than previously expected as a new public company.

In the appendix of the presentation, you'll find our updated full-year assumptions for the pro forma below-the-line expenses, adjusted effective tax rate and shares outstanding.

We're also raising the guidance for our second half free cash flow to $1.2 to $1.4 billion. We continue to expect capital expenditures of about $650 million for the year. These investments are within our control and have quick payback periods, and are expected to drive significant value creation, for years to come.

Stepping back, we're keeping our second half guidance intact as we seek to build a track record of delivering on our financial commitments. We're pulling forward investments into our supply chain that should unlock deliveries across all our end markets. Importantly, converting strong demand into sales will serve as an idiosyncratic growth driver for Honeywell Aerospace in the future.

Looking forward to 2027, we expect output growth to ramp throughout the year as various supply chain actions we've discussed today increasingly take hold. Higher output growth will translate to accelerating sales growth and will also allow for healthier allocations across all our end markets. To accelerate our supply chain transformation, we anticipate pulling forward investments that will run through our P&L and CapEx.

I'll now turn it over to Jim for some concluding remarks, starting on Slide 11.

Jim Currier
Thanks, Josh. Honeywell Aerospace's journey as a public company is now four months old and I've seen, firsthand, how our leadership team has rallied around the mission of boosting supplier production and our factory output. We are spending our time where it matters most to deliver on our commitments to our customers, which will lead to greater value creation for our shareholders.

Backed by strong secular trends across aerospace and defense end markets, customer demand for our mission-critical solutions continues to grow.

We're generating new wins at an accelerating rate as our unique approach to innovation is resonating well in the marketplace, from additional platform wins to operator selections for our equipment on new aircraft to RMUs for the existing fleet. Our backlog sits at a record level.

To deliver above-market growth going forward, we need our supply and manufacturing base to catch up. We are following a well-worn path to transform and enable attractive growth. We have been investing to add new sources of supply and are now accelerating that effort.

Key new suppliers for constrained mechanical components are coming online and will continue to do so, over the next several quarters. We have approved new insourcing projects for over $100 million of material spend, annually, with more to come. These projects will add needed throughput and give us better control of our own future.

Finally, we are proactively replacing and updating supplier tooling to drive better yields and productivity. We are starting to see the results of our actions. Our watch-list suppliers delivered more of what we needed than they did last quarter, and we expect to see continued improvement. Consistently higher supplier output will increase deliveries to our customers in 2027, and beyond.

With this ramp in mind, we remain committed to our 2030 targets and excited about the long-term outlook for Honeywell Aerospace. As we invest in driving better organic growth, our strong cash generation also supports regular capital returns to shareholders. We have declared our first regular quarterly cash dividend, which we expect to increase over time.

To finish up, please turn to Slide 12 for a brief recap of why Honeywell Aerospace remains a compelling long-term investment opportunity.

The fundamentals of our business and how we create value for customers are very clear. We are a premier provider of mission-critical systems across commercial air transport, business aviation, defense, and space markets. Our core technologies are platform agnostic, allowing us to efficiently innovate and participate, broadly, in a multi-year aerospace and defense upcycle. We have a large, diversified global installed base which underpins a resilient and growing aftermarket business and provides visibility into recurring revenue and cash flow.

At the same time, we are investing in helping our original equipment customers solve increasingly complex challenges, from greater electrification to higher levels of safety and autonomy.

Our Honeywell Aerospace operating system drives execution, productivity, and continuous improvement, supporting profitable long-term growth and directing our investments, including those into our supply chain. Backed by a strong balance sheet and disciplined capital allocation, Honeywell Aerospace is positioned to create long-term value for its stakeholders.

With that, Sean, let’s go to Q&A.

Sean Meakim
Thank you, Jim. Operator, please open the line for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. We ask that you please limit yourself to one question and one follow-up. If you would like to ask a question, press "*", "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Kristine Liwag with Morgan Stanley. Your line is now open.

Kristine Liwag
Hey, good afternoon, everyone. Jim, Josh, Sean, thank you for the content on suppliers. So, I think I wanted to follow up on this a little bit more. Jim, you mentioned that you have roughly 10 suppliers that are pacing output growth and you're seeing this step up in 2027. So how much visibility do you have into these supplier KPIs improving? Do you have more of a heads up or are you finding out still on a quarterly basis regarding what you're getting in the door?

And also, when do you expect to see the acceleration in organic growth? And on a follow-up to that, you still highlighted bearings as a red area for the supply chain. You've talked about bringing on a second supplier, but on bearings there's also a supplier that won the Boeing Supplier of the Year award in 2022 that doesn't appear to be a major supplier to you today.

I guess what's preventing you from bringing on more established, potentially more expensive suppliers so you could aggressively address some of these issues? And where are you on that journey? Thank you.

Jim Currier
Good afternoon, Kristine, and thank you for your question. I mean, indeed, we are seeing, overall, that our supplier KPIs across those four most constrained categories are improving in the third quarter, particularly as compared to the second quarter. And that gap to our need is narrowing year to date. The bottom line, we are getting more of what we need, and these stronger KPIs will lead to higher 2027 sales growth.

The level of visibility that we have within those foremost constrained products and commodities, again, across those 10 individual suppliers, where I am personally engaged with them, is actually lending a level of visibility that we had not seen before and a level of transparency that they are providing, which we had not seen beforehand either.

And what we expect is that the supplier output will continue to build quarter over quarter from the fourth quarter of 2026, throughout the year of 2027. And the timing of some of those benefits will vary somewhat, depending upon the source of the issue.

Now, you mentioned bearings as an example of one of those four highly constrained commodity groups. And indeed, as indicated in the presentation deck, that is the most constrained supply capacity constraint that exists in that particular commodity. What I'll tell you, though, is that we are seeing encouraging progress in that particular commodity group of bearings.

We've got a second source that is now ramping output for one of the categories of a very high-volume component, and we've seen that now from Q2 to Q3 and carrying forward now into Q4. But one has to remember, there are several types of bearings that we source across over 350 different SKUs. And we are addressing those constraints in a few other areas and expect more progress in the coming quarters.

The other thing I would add relative to that, as I mentioned, the second supplier coming online and ramping in 2026, we expect them to actually be current to their past due in early 2027. And we have a third supplier that is investing in capacity and workforce to come online in the second quarter of 2027.

My point being, recognizing that is a highly constrained commodity within the four groups, we are doubling down in increasing supply base suppliers and we're starting to see that progress materializing.

Josh Jepsen
Yeah, maybe one thing I'd add, Kristine, when you think about that, these actions we're taking will layer upon themselves, as we step forward. So it's not one fell swoop, but we'll see these actions, like Jim mentioned, start to stack up which lead to more output as we go forward.

Jim alluded to output growth. We look at output growth from a COGS perspective. 2Q to 3Q, we saw a 5% increase, which is good and positive. And we expect more than that, as we go forward in the 4Q. So that trend and trajectory I think is really positive as we step into '27 with higher levels of output. And as noted, these actions beginning to unlock more output coming through the supply chain as we go forward. Thank you.

Kristine Liwag
Great. Thank you very much.

Operator
Your next question comes from the line of Robert Stallard at Vertical Research Partners. Robert Stallard, your line is now open.

Robert Stallard
Thanks so much. Good evening.

Jim Currier

Hi Robert, how are you?

Robert Stallard
Good, thanks. Jim, this question for you focusing on that Slide 5, and thanks for the additional detail here. The question I have is, although you've seen this sequential progress coming through in these problem areas in the supply chain, are you closing the gap relative to what your OEM customers are requiring? I know they're the priority at the moment, but is there a risk to OEM build rates because of the supply chain issues you're having?

Jim Currier
What I would tell you, Robert, is we are deeply aligned very intimately with every single one of our OEM customers, whether that's on the commercial air transport side or whether that is also on the business aviation OEM side, which both are ramping in their outputs of aircraft deliveries.

As you know, as we get more supply, we are focused on OEM fulfillment versus aftermarket fulfillment to ensure that the production lines are not impacted as a result. And as we continue to see more of that supply coming through, it allows us that flexibility to start allocating some of those parts back over into the aftermarket, which provides tangential and additional benefits for the business, both in terms of revenue and margin expansion.

But the hyper focus that we have around these critical 10 and the additional 60 that we talk about that are critical, however, they have the capacity but they're not delivering consistently and reliably. That level of focus and attention that we're applying is going to allow us to continue to meet the OEM rates and the growth rates in the OEM market segments as well, both commercial and biz av.

Robert Stallard
Okay, there's a quick follow-up in relation to that. You mentioned that in the defense market you've been prioritizing the Pentagon effectively and deferring some of your export orders. Has that had any ramifications? I mean, do these non-U.S. customers have alternative suppliers that they could go to or they just have to wait?

Jim Currier
What I will tell you is you are right. We have been allocating more to national security needs with our defense primes and the order book that we have there versus the international customers. It's a very, very similar analogy as we think about the commercial market where more is being allocated to OEM versus the aftermarket. Similarly, more is being allocated to the defense domestic industry versus the international market.

However, having said that, we are still seeing exceptionally strong order growth in the defense international markets, as well.

We have not seen any decline in the order book and in fact, the defense business has been growing on the order book double digits for us, again, led by what we're seeing in the international defense market segments.

Josh Jepsen
Rob, maybe one thing to add to that is just, you know, we've talked some of them in the past about Civitanavi, an acquisition we did, with Europe-based, a lot of defense business. So that's been growing. We've talked about it nearly doubling this year, and we've got order visibility that covers much of '27 to feed that demand.

So, I think it also speaks to the synergies that we've seen, but also the opportunity to keep growing and building upon that footprint to enable more of that international defense business, which has lots of appetite and we know it's accretive to our overall business, as well. Thank you.

Robert Stallard
That's great. Thanks very much.

Operator
Your next question comes from Ken Herbert at RBC Capital Markets. Ken Herbert, your line is now open.

Ken Herbert
Yeah, thanks. Good evening, Jim, Josh and Sean. Maybe if I could just to start, on the commercial aftermarket up 2%. you indicated that you saw some benefit of timing on some shipments that otherwise maybe it would have been down, year over year. Can you provide a little bit finer point on the timing benefit in the quarter and then, underlying the 2% growth, can you provide any color or granularity on how we should think about that in terms of commercial transport versus business jet?

Josh Jepsen
Yeah, thanks, Ken. Yeah, we had about a point of top line kind of move from 4Q to 3Q that shifted and drove a little bit of growth. As we mentioned, up 2 for commercial aftermarket. The quarter was pretty balanced between commercial air transport and biz av from a growth perspective. We're not changing our full year guide there, so relatively unchanged really, just more timing between the quarters.

I think the positive is there. We continue to see really strong demand in commercial aftermarket. Orders were up 12% year over year in that segment and both driven by the continued growth in commercial air transport, but I think also just the stability and resilience that we're seeing in business aviation. That part is roughly 50% of the commercial business. And we're seeing flight hours there, compared to our forecast, were stronger in the quarter and revised up for the full year.

And when you look at the segments that we play in, they're actually outperforming flight hours from the broader business aviation, so driving stability and resilience in that area, as well.

Jim Currier
And I would just emphasize the point that Josh is making on the biz av and the resiliency of that market segment from an aftermarket perspective. As you know, we play in what's called the midsize category to the ultra-long range. And if you look at business aviation holistically, the market is growing in terms of flight hours at about 5%. For the products and services that we provide, again in that super midsize category and above, we're actually growing at 8% in terms of BGA flight hours.

So it is definitely a tailwind for the business, as it pertains to the commercial aftermarket for us, and we anticipate that is going to continue going forward.

As you may have seen, we released our global forecast for business aviation at NBAA, our 35th annual edition of that, going forward. We actually noted in that report that we issued that nine of the 10 operators that are currently flying aircraft today will actually fly more in business aviation next year than what they've done this year.

And focusing in on that one segment, that midsize to super midsize segment where we have engines, APUs, avionics systems, cabin pressurization control systems and environmental control systems, those flight hours are actually expected to grow 40% over the next decade, compared to the rest of the business aviation marketplace.

So it's just indicative of why we invest in that super midsize and above category with our products and services, because it is outgrowing the rest of the business aviation market.

Ken Herbert
Hey, Jim, appreciate all the color and detail on the business side. And just to be clear, on commercial transport, you're not seeing any change in backlogs or customer behavior as a result of obviously the higher fuel prices?

Jim Currier
We have not seen that, whatsoever, in the commercial air transport market. As Josh made a mention a moment ago, our demand remains exceptionally robust with the third quarter orders in commercial aftermarket actually up 12%, year on year. So we have not seen that flow through the system yet.

And on top of that, we also have a substantial amount of commercial aftermarket air transport-specific backlog in our system as well, which insulates us, somewhat, from any perturbations that may be occurring. But foundationally, we're not seeing any of those perturbations yet and we don't anticipate to see them in the air transport aftermarket segment.

Sean Meakim
Ken, this is Sean. One small reminder for the group is that this was our toughest comp for aftermarket and commercial last year grew 23%. So while the growth rate's modest here, on a two-year stack we're still talking low double digits and that long-term trajectory is very robust.

Ken Herbert
Great, thank you.

Operator
Your next question comes from the line of Scott Mikus with Melius Research. Scott Mikus, your line is now open.

Scott Mikus
Good evening, Jim and Josh. The supply chain issues you've been dealing with have mainly been on the mechanical side. We've seen a lot of defense companies talk about extended lead times for memory, semiconductors and to a lesser extent, rare earths. I'm just curious, how are you feeling about the electrical supply chain? Are there any issues popping up there maybe that you didn't see three or six months ago that could impact either the fourth quarter or the ramp into '27?

Jim Currier
Good evening, Scott. It's an excellent question. As you know, we've been very focused on the mechanical side of the business and the mechanical portion of the supply base. We are aware of those shortages that most folks are talking about, and they have been increasing, and lead times have been increasing for certain electronic components throughout the industry. But we have not seen any material impact to our operations, and we are planning appropriately to ensure that we have the appropriate supply to support the robust demand that we're seeing in the Electronic Solutions business, which actually saw orders up strong double digits in the third quarter.

And so, the same sort of approach that we have in terms of going down into the details on the mechanical side, make no mistake, we do the same thing on the electronic side of the portfolio as well, all the way down to printed circuit cards and printed boards, themselves.

So, it's the same sort of operating system that's being applied. We focus very heavily on the mechanical side because that's had the biggest impact in the portfolio, but that same robustness of the operating system that we have deployed there, we do in the electronics business and therefore, we feel confident in terms of our supply that will be supporting the strong growth that we see in Electronic Solutions.

Scott Mikus
Thank you. I'll stick with one.

Operator
And your next question comes from the line of Myles Walton at Wolfe Research. Myles Walton, your line is now open.

Myles Walton
You teed up accelerating growth into 2027 and then also mentioned pulling forward investments in the P&L and CapEx. And I know, Jim, you had mentioned in your opening remarks providing some initial thoughts on ’27. So maybe if you can flesh out the rate of acceleration you’re anticipating in ’27, Josh, and what the P&L investments mean for margin and also the CapEx profile. Thanks.

Josh Jepsen
Yeah, thanks, Myles. It’s Josh. I would say, from a starting point, it’s early. We’re working through our process in terms of what we expect to see for ’27. I think, importantly, we’re very, very focused on the supply chain and the actions we’re taking to drive output growth, quarter on quarter.

We talked about this—Jim alluded to it a little bit—but by those categories we’ve got different actions that we’re taking. Bearings we covered well. In complex machining, we’re getting labor into some of our constrained suppliers.

We’re already starting. In October, we saw some lift after getting folks in and trained and we think that that continues to build. We’re taking additional actions in complex machining where we’re actually taking control over sourcing forgings and castings for our supply base in complex machining just to ensure continuity and stability of supply. And we’re qualifying additional machine shops to do more of that work, so net adding capacity.

On castings and forgings, we’re taking actions to drive improvements. Some of these take some time; mid-’27, we see more of them coming through. We have capacity lined up for ’27. We’re seeing a higher level of spend to update tools that will help drive better yield on that capacity that we have, and then we’re continuing to drive multi-sourcing activities. Those things all help grow output at a higher rate in ’27, as we step forward.

As to what it means for margins, again, we’re working through that, so I won’t say here’s exactly what it looks like, but here are the things to consider, the drivers, as we step into ’27. One, higher volumes will improve leverage for us, but you need those volumes to come through. Ultimately, we need to be able to operate more sustainably at high levels to drive productivity, so that is an opportunity for us.

Pricing, we’ve seen good momentum in ’26; we expect that to continue in ’27. At the same time, we do think mix continues to be a headwind given what we’re seeing from a backlog and orders perspective. OE and Defense will take some precedence there, and we think that puts pressure on us, and we’re going to continue investing in innovation.

The wins that we're stacking up today, $20 billion year to date, we did $5 over the quarter, I think that gives us continued confidence and assurance in why we want to be investing in the portfolio for the long term. These are long-lived products and life cycles, so we're going to keep investing there.

And then lastly, the last piece, it's really around the operating system and enhancing productivity. As we update the operating system, we'll drive more focus on productivity, in addition to continued diligence on how we manage cost, overall, as an enterprise.

Myles Walton
Okay, thank you.

Operator
Thank you. And your next question comes from the line of Sheila Kahyaoglu with Jefferies. Sheila Kahyaoglu, your line is now open.

Sheila Kahyaoglu
Thank you so much. I have two questions; one is a follow-up to Myles's. But my first question, I guess, is now when you look at your margins in Q, year to date, they're about 24%. That includes, obviously, the tariff refund and then implied for Q4 is a step down. Slide 5 has bearings now yellow. I guess, how do we think about what normalized margin looks for the business as we exit '26, head into '27? And the follow-up to Myles's question, is that $500 million Arizona facility going to be funded out of free cash flow or is it supported by the Department of War? Thank you.

Josh Jepsen
Yeah, thanks, Sheila. Maybe starting with the first part of that, we'll exit this year in the mid-23s. I think that's a good jumping-off point. If you adjust some of the one-time things we saw 2Q/3Q, that's more or less where we're operating. So I think that's a starting point. Maybe just to walk through those pieces a little bit, as we've kept the second half intact, we talked a little bit about the movement between 4Q and 3Q on the top line.

Margins 25% in 3Q, that has about 110 bps of the tariffs impact. We've got a little bit of mix headwind in 4Q, so that gets you right in the mid-23s. So I think that's a reasonable place to think about where we operate from a jumping-off point. Your question on the $500 million—I think you were referring to the new project that we announced, is that correct?

Sheila Kahyaoglu
Yeah, yeah, exactly, the Arizona facility.

Josh Jepsen
Yeah, so we've been planning that for a few years and really executing that based on the wins we've seen in control systems on Assure and Attune. Portions of that will go to the Department

of War through the framework agreement for the products that we serve in that. There's also a fair bit of commercial. So this ranges from 737s to 320s to GMLRS and many others. So there's a lot of different products that this will source. It gives us more capacity, it gives us the ability to be more vertically integrated, control our own destiny a bit more.

And then we're investing in what really is kind of what will be, for us, our state-of-the-art manufacturing, like what do we want this to look like going forward? So we've got that. That's embedded in our plans and we're working through exactly how we'll fund that and finance that. But we feel good about the plans and the ability to continue to generate strong cash to be able to drive both organic investments in the business, return to shareholders, and I think increasingly, as we think about the M&A side, really, what do we do to bolster the manufacturing base and the supply base as well.

Jim Currier
Yeah, and the only thing I would add to that, Sheila, is this is about fulfilling $15 billion of wins that the Control Systems business has realized over the last few years, specifically around two areas of advancement of innovation that have been focus areas for Honeywell Aerospace, and that is around electromechanical actuation and vapor cycle cooling systems.

So as we talk about Assure, which is around electromechanical actuation, and Attune, which is vapor cycle cooling systems, and then some of the other products within the Control Systems portfolio, this is really about the substantial amount of wins, the $15 billion I referenced a moment ago, and enabling the ability to not only add robustness and resiliency to the supply base, but to deliver against the $15 billion of wins that that business has had across, primarily, those two pieces of their portfolio.

Sheila Kahyaoglu
That's super helpful. Just can I clarify. So how do I think about CapEx, I guess, next year?

Josh Jepsen
Yeah, I mean, we'll certainly have a guide. You know, we're talking $650, this year. I would expect a step up next year as we think about the priorities, whether this project being one of them. What we've talked about for other Department of War in our Electronic Solutions, we're seeing significant demand in navigational sensor products. So, we've got a few big priorities as we think about growth opportunity, and some of that, as I mentioned with the Arizona project, also drives some insourcing and vertical integration, which we think is beneficial for a number of reasons.

Sheila Kahyaoglu
Okay, thank you.

Operator

Your next question comes from the line of Seth Seifman with J.P. Morgan. Seth Seifman, your line is now open.

Seth Seifman
Hey, thanks very much and good evening. Wanted to ask a follow-up about the 2027 outlook. And so, you guys put out an FAQ recently and talked about the incrementals being lighter over the next couple of years than the 30% average. And I think that makes sense given the journey that you're on. But I think given the low level of this year's margin, I think based on the consensus expectations, it seemed like maybe there were some, as a product just of coming off a low base, maybe there were some expectations that next year didn't necessarily have to be below that.

If you could give us any more color on how you're thinking about it, was that meant to be versus what you reported? Was that meant to be versus some kind of adjusted number, maybe for, you know, charges or benefits? Or was that more of a, you know, qualitative, as the business improves from a supply side and execution standpoint, we'll be able to expand margin faster?

Josh Jepsen
Yeah, thanks, Seth. I would say we talked about this going back to June. You know, we don't think this is a linear path from where we are to 2030 in terms of EBIT dollar growth or margin expansion. I think the near term maybe highlighted even further the need. The things we can do today to invest, to drive growth I think are both going to be high return and quick payback. But there are costs associated. We'll see depreciation, we'll see some of the costs as we work through some of the challenges and invest OpEx dollars as well into the supply base to drive output, near term.

I think we still feel confident over the time horizon to 2030 that we'll drive the EBIT growth and the margin growth. But I think in the near term, the ability to invest to drive higher levels of growth and unpack that I think is really important.

And maybe to put this in perspective, we've seen our past-due backlog grow this year, and had we had the supply output to be able to just maintain that level and not see that grow, it would have been worth about four points of growth.

So if you think about four to five percent growth this year as our forecast, if we had the output just to maintain and not build that past-due backlog, we would have been 8-plus percent growth. So I think it puts into perspective how critical these investments are and what they can unlock, as we go forward.

Jim Currier
Yeah, the only thing I would mention there, and this is now maybe forward-looking a little further into 2030 and the framework that we had laid out at Investor Day. First and foremost,

we remain confident and fully committed to those 2030 targets. You know, 2026 has been somewhat of a transition year and, as such, we are accelerating our supply chain transformation and next year, we expect to see more benefits in sales growth and begin to see that unlock.

To Josh's point, the demand picture remains exceptionally robust and resilient for the business. As I mentioned, we have $20 billion of sales lifetime wins year to date, $5 billion occurring in the third quarter.

And the last thing I'd say: all of that combined, as we've said, the key to all of this being delivered is the supply chain unlock and hence, the growing investments that we're making in insourcing, multi-sourcing, supplier tooling, CapEx deployment, whether that's internal CapEx deployment or external and dedicating new capacity that will come online, over the next several quarters.

Seth Seifman
Thank you very much.

Operator
Our final question comes from the line of David Strauss at Wells Fargo. David Strauss, your line is now open.

David Strauss
Great. Thanks for squeezing me in. Josh, I wanted to revisit one of the comments that you made, I think it was Myles's question, around mix in '27 where you said mix would be a headwind. Were you speaking to the fact that you think just broad market OE is going to outgrow aftermarket, or that you're not going to have enough of a supply chain recovery to kind of make up for what you're missing this year, it would appear like on the aftermarket side?

Josh Jepsen
David, I would say it's probably a combination of the two. But first and foremost, I think we do see the OE side growing at a faster rate. We were seeing that this year, and I think we see that as we go forward. So that is one issue. And the growth that we're seeing on the defense side also, as mentioned, our trailing 12-month orders in Defense and Space was 18%, so it's robust as well. So there's that component. Just the demand drivers that you mentioned will impact mix.

And then as we continue to work through the supply, you know, as we talked about this, there's a lot of actions that will come in different increments here as we step forward that will have some impact, as well. So I think the combination of the two that you mentioned will provide some headwind from a mix point of view.

David Strauss

Okay, got it. And then, Jim, the repricing opportunity, can you talk about where that stands, maybe any sort of sizing of what that could mean and how far you're actually through that opportunity in terms of what's coming through to you today?

Jim Currier
Yes, I won't provide any specificity around pricing percentages or what we're going to see in terms of price-cost. What I would tell you, and I think what you're referring to, are some of our long-term agreements that, occasionally, from time to time, we have OE customers where those contracts will expire, and they create those opportunities to reset pricing to current levels.

We have some ongoing across multiple OEMs, and I would say those negotiations on these upcoming renewals are going as expected, which will allow us to achieve better alignment of our pricing to cost, particularly as our costs have increased in recent years and pressured margins in the business due to inflationary aspects that have been occurring within the marketplace. But these new agreements will help alleviate some of that pressure over time. We'll start to see some of those benefits materializing in 2027 and then more in future years.

David Strauss
Okay, thank you very much.

Jim Currier
Thank you.

Operator
Thank you. And I would now like to turn the call back over to Jim Currier for closing remarks.

Jim Currier
Thank you. I sincerely appreciate everyone taking the time to listen to Honeywell Aerospace's earnings call today. Building on a proud history of aviation leadership, we continuously innovate to protect and advance the promise of flight to create a safer, more connected world. We are diligently investing at pace in our future.

Thank you to our customers, our employees, our suppliers, and our investors for supporting our mission. Have a great evening.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.