UTC Assessment of Honeywell Proposal

February 26, 2016
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UTC opposes a combination with Honeywell which would encounter significant regulatory opposition and customer concerns, and create insurmountable conditions to complete a transaction

**Significant regulatory challenges in U.S., EU, China, Brazil, Canada and elsewhere**

**Negative impact on customers (Airbus, Boeing, DoD) – recent public statements regarding concerns over supplier consolidation**

**Possibility of failed deal scenario with negative financial, operational, customer, and talent impacts, regardless of whether or not the deal is completed**

Notwithstanding significant regulatory and customer concerns regarding consolidation, the proposal fails to consider the following

**Proposed synergies do not consider the impact from significant divestitures and customer concessions**

**Proposed value is wholly insufficient, not taking into account the significant earnings and cash flow prospects of UTC**
CUSTOMER & REGULATORY

Significant overlap across the portfolio

UTC: $56.3B (2015)

HON: $38.6B (2015)

Overlap with UTC

Aerospace
- Engines
- APU
- Avionics
- Space products
- ECS
- Electric power
- Engine systems/accessories
- Aircraft lighting
- Sensors
- Landing systems (W&B)
- Actuation/flight controls
- Management & technical services

Automation & Control
- Security & life safety
- Environment & combustion controls
- Building solutions/services
- Scanning & mobility
- Process automation

Significant overlap would either block deal outright or result in substantial divestitures that would erode value of combination
Combination would provide internal systems from nose to tail, creating anti-competitive concerns
## CUSTOMER & REGULATORY

### Commercial product overlap

<table>
<thead>
<tr>
<th>Security</th>
<th>UTC</th>
<th>Honeywell</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrusion panels</td>
<td>AdvisorOne, Concord, Monitor, NetworX, Simon, ZeroWire</td>
<td>ADEMCO VISTA, OMNI, LYNX</td>
</tr>
<tr>
<td>Wired glass break sensors</td>
<td>Aritech</td>
<td>FlexGuard</td>
</tr>
<tr>
<td>Wireless sensors</td>
<td>Garage door, door/window, image, motion, shock, glass break, panic, smoke/heat, CO</td>
<td>Door/window, motion, CO, smoke/heat, glass break, asset</td>
</tr>
<tr>
<td>Fire panels</td>
<td>Chubb, Edwards, GST</td>
<td>Chubb, Edwards, Kidde, GST, Notifier, Silent Knight, Gamewell-FCI, Fire-Lite</td>
</tr>
<tr>
<td>Aspirating smoke detectors</td>
<td>Atmosfire, AIRSense, AIR-Intelligence, ORION</td>
<td>FAST, HI-SPEC, ALL-SPEC, TITANUS, Compact ASD, Xtralis1 VESDA/ICAM</td>
</tr>
<tr>
<td>Comm’l fire detection</td>
<td>Chubb, Edwards, Kidde, GST</td>
<td>Chubb, Edwards, Kidde, GST, Notifier, Gamewell-FCI, Fire-Lite, System Sensor</td>
</tr>
<tr>
<td>Comm’l fire alarm</td>
<td>Chubb, Edwards, GST</td>
<td>Chubb, Edwards, GST, Gamewell-FCI, System Sensor</td>
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</tbody>
</table>

1. Xtralis acquisition announced 2/4/2016, expected closing 2Q16
Source: Company websites
Recent environment has become more stringent

Boeing uses its clout to control supplier consolidation

Boeing is the biggest customer of most aerospace suppliers, and is slowing some acquisitions by using its power to approve the transfer of its supply contracts from one owner to another.

Boeing can act like an unofficial regulator on aerospace mergers and acquisitions because of the “assignability clause” inserted in most of its contracts with suppliers. The clause allows Boeing to refuse to transfer the contracts to the new owners, giving it a de facto veto over deals.

NEW YORK | BY ALWYN SCOTT
August 30, 2015

Pentagon warns against further consolidation among big arms makers

Pentagon officials warned on Wednesday against further consolidation in the U.S. weapons industry because fewer defense contractors could lead to higher costs, decreased innovation and less competition.

“What I said then and still believe is that it was important to avoid excessive consolidation in the defense industry to the point where we did not have multiple vendors who could compete with one another on many programs,” Carter told reporters.

WASHINGTON | BY ANDREA SHALAL AND YEGANEH TORBATI
September 30, 2015

Airlines Turn to Trade Group to Probe Competitive Practices of Suppliers

Airlines are seeking legal advice to examine whether they are being gouged on the cost of the equipment they buy, including jetliners and the engines that power them, according to Willie Walsh, chief executive of British Airways parent International Consolidated Airlines Group SA.

“We have asked the team at IATA to engage external legal counsel to start looking into this issue,” Mr. Walsh said. The group will explore whether manufacturers and aftermarket parts suppliers are complying with competition rules.

By ROBERT WALL And JON OSTROWER
June 8, 2015

Too Many Toys? Mattel-Hasbro Fate Rides on Antitrust Math

U.S. antitrust enforcers are responding forcefully to the flurry of mergers in highly concentrated industries and may be emboldened by recent victories.

Mega deals pending in industries including health insurance, drug stores, pharmaceuticals and chemicals are facing scrutiny from the FTC and the Justice Department, which share antitrust enforcement authority.

by David McLaughlin  Andrew M Hazis
February 4, 2016

Combination would encounter significant regulatory challenges both domestically and abroad

The European Commission launched an investigation into the alleged anticompetitive behavior by aerospace OEMs in the provision of aftermarket services in September 2015 focusing on Honeywell in APUs
Recent customer reactions

**AIRBUS**

I do not see that such a combination would be in the interests of Airbus…

I am under the impression that the UTC leadership shares my assessment.

Tom Enders  
February 24, 2016

**BOEING**

Healthy competition in our supply chain is vitally important to Boeing and our commercial and military customers... we would anticipate taking a very close look at the potential impact on us and our customers of a Honeywell-UTC merger or acquisition.

February 24, 2016

**BOMBARDIER**

Canadian aircraft maker Bombardier told the FT that it would also object to any merger, reflecting widespread industry unease over the dominance such an enlarged supplier would have and the erosion of competition.

February 24, 2016

**EMBRAER**

I don’t think that would be good, at least for Embraer. On the E2 they are major suppliers and if they become one supplier they will have an enormous stake. So that’s something we are looking carefully at.

Frederico Curado  
February 26, 2016

Proposed combination will face significant objection from customers
“A decade and a half ago, Honeywell botched a merger with AlliedSignal, leaving rifts in the management of the company that hampered cooperation and hurt morale. It left a mess that employees nicknamed “Honey Hell.” The wounded company was then almost taken over by GE, but when European regulators shot down the acquisition, it was left with bleak prospects.” – Wall Street Journal (Sept. 1, 2015)
UTC represents a majority of the financial contributions of the combined company
FINANCIAL ASSESSMENT

Proposal grossly undervalues UTC

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HON equity value</td>
<td>$83B</td>
</tr>
<tr>
<td>UTC equity value</td>
<td>$74B</td>
</tr>
<tr>
<td>New debt issued</td>
<td>($36B)</td>
</tr>
<tr>
<td>Combined equity value</td>
<td>$121B</td>
</tr>
<tr>
<td>x UTC 40% ownership</td>
<td>$48B</td>
</tr>
<tr>
<td>÷ UTC 833m shares</td>
<td>$58 / share</td>
</tr>
</tbody>
</table>

HON proposal

Premium / (discount) to:
- 52-week high of $124.45: (19%)
- 6-mo VWAP of $92.95: 9%
- 2/18/16 close of $88.36: 15%

Equity value as of 2/18/2016
SYNERGY BENEFITS OVERSTATED

HON’s assumed $3.5B synergy figure is highly aggressive (~8.5% of HON sales)

Both companies already operating at best in class margins

Does not include impact of required divestitures

Projecting synergies are unrealistic and have no precedent
# VALUE DESTRUCTION

## Regulatory divestitures and customer concessions

(Present value, $ billions)

<table>
<thead>
<tr>
<th>Value</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical value of synergies</td>
<td>$2.5B annualized @ 9.3x blended EBITDA</td>
</tr>
<tr>
<td>Restructuring cost</td>
<td>$3B cash restructuring</td>
</tr>
<tr>
<td>Synergies lost from divestitures</td>
<td>$0.5-1B synergy loss from divestitures @ 9.3x blended EBITDA</td>
</tr>
<tr>
<td>Valuation leakage from divestitures</td>
<td>1.5-2x discount to blended EBITDA multiple</td>
</tr>
<tr>
<td>Tax leakage from divestitures</td>
<td>Low tax basis on divested assets</td>
</tr>
<tr>
<td>Aero customer concessions</td>
<td>5-10% price reduction on OE portion of retained aerospace business</td>
</tr>
<tr>
<td><strong>Net value creation</strong></td>
<td>(7) – 4</td>
</tr>
</tbody>
</table>

Significant value destruction likely from regulatory divestitures and aerospace customer concessions
Today, UTC is…
Flatter – Leaner – Agile – Closer to customers – Regionally scaled - Collaborative

UTC LONG-TERM VALUE CREATION
Meaningful actions to drive long-term growth

Streamlined portfolio – divested Sikorsky
Focused, simplified organizational structure
Continued restructuring
Investment in new aerospace programs
Increased return of capital to shareholders - $22B from 2015-17
UTC LONG-TERM VALUE CREATION

Positioned for long-term growth

~7,000 engine orders* with industry leading GTF technology… reducing fuel burn, emissions, noise

30+ systems nose to tail… technology enabling advanced system integration, content per platform up >50%

World-class brands serve growing middle class… innovating in efficiency, sustainability and intelligent systems

Leveraging 1,800 branches, 3M unit installed base, 1.9M units under service to meet unique customer needs

* announced and unannounced firm & option orders
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