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Financial Release

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Honeywell Global Business Aviation Forecast Sees 4 Percent Average Annual Industry Growth Over Next Decade

- Up to 9,450 deliveries of new business jets valued at $280 billion forecast through 2024
- Operators plan to replace 23 percent of their fleets with new jets in the next five years
- European and Brazilian purchase plan percentages lead all world regions
- Large-cabin jets account for up to 46 percent of five-year new purchase plans

ORLANDO, Oct. 19, 2014 /PRNewswire/ -- In its 23rd annual Business Aviation Outlook, Honeywell **(NYSE: HON)** is forecasting up to 9,450 new business jet deliveries worth $280 billion from 2014 to 2024.

The 2014 Honeywell outlook reflects an approximate 7 to 8 percent increase in projected delivery value over the 2013 forecast. Slightly higher unit deliveries are coupled with modest list price increases and the continued strong showing of larger business jet models in the delivery mix to generate the growth.

Honeywell forecasts 2014 deliveries of approximately 650 to 675 new jets, a single-digit increase in percentage growth year over year. The improvement in deliveries expected in 2014 is largely due to program schedule recoveries, new model introductions and additional fractional uptake.

"2015 industry deliveries are anticipated to be up modestly again, reflecting momentum from several new model introductions and some gains linked to incremental global economic growth," said Brian Sill, president, Business and General Aviation, Honeywell Aerospace.

SURVEY FINDINGS

In its latest survey, Honeywell found that the operators interviewed plan to make new jet purchases equivalent to about 23 percent of their fleets over the next five years either as a replacement or in addition to their current fleet. This level of interest is several points lower than the past four survey cycles, but is in line with results of 25 percent or less that were the norm until 2006. Of the total new business jet purchase plans, 19 percent are intended to occur by the end of 2015, while 14 and 22 percent are scheduled for 2016 and 2017, respectively. The survey does not allocate projected demand to specific years beyond 2017. Purchase timing is shifted somewhat later compared with last year's results and leads to a modest slowdown in projected demand for the near term. However, pre-sold positions for new models entering service in 2015–16 should mute this effect on recorded deliveries.

LARGER JETS REMAIN POPULAR

Despite lower overall purchase expectations, operators continue to focus on larger-cabin aircraft classes ranging from super midsize through ultralong-range and business liner, implying these types of aircraft will command the bulk of the value billed from now until 2024. This large-cabin group is expected to account for more than 75 percent of all expenditures on new business jets in the near term. Volume growth between now and 2024 will be led by these classes of aircraft, reflecting 60 percent of additional units and nearly 85 percent of additional retail value.

"The strong desire for larger-cabin aircraft with greater range and advanced avionics is seen again in this year's survey," Sill said. "We are also seeing some improved interest in midsize and small-cabin models this year. As a full-spectrum supplier, we are pleased to see aircraft in every class with significant Honeywell equipment content among the most popular models cited in the operator survey."

"For many years, the Honeywell Operator Survey has pointed the way for the industry," said Carl Esposito, vice president of Marketing and Product Management, Honeywell Aerospace. "The annual outlook reflects topical operator concerns but also identifies longer-cycle trends we use in our own product decision process. It has helped Honeywell focus on investments such as designing and developing flight efficiency upgrades, optimized propulsion offerings, innovative safety products and enhanced aircraft connectivity offerings. The survey also contributes to our business pursuit strategy, and helps position Honeywell consistently on high-value platforms in growth sectors."

Another notable finding in the 2014 survey is the improved interest levels for midsize and small-cabin aircraft in operator purchase plans. While large-cabin models still garner the largest share of specific buying plans, the midsize and smaller models recovered some share for the first time in several years, reflecting improved prospects for popular production models as well as stronger interest in newer models just now available or soon to enter service.

REGIONAL BUYING DETAILS

Regional purchasing results are affected by each market's maturity, economic environment and other characteristics. Emerging markets generally show higher, but historically more volatile, levels of demand and a more pronounced preference for larger aircraft. As traditional regional markets have coped with economic variability and political uncertainties, key emerging markets have been shaping recent industry growth, backlog and portfolio composition.

This year, Honeywell sees a realignment of near-term regional market shares. The overall level of forecast aircraft demand coming from inside North America slipped back after increasing for the first time since 2010 last year. Roughly 59 percent of projected demand comes from North American operators, down two points from the 2013 survey. "New aircraft acquisition plans in North America are still significant given the region's overall size," Sill said. "Coupled with projected gains in fractional fleet deliveries, North American demand should still support industry volumes as some of the traditional higher-growth regions work through another year of reduced growth rates."

Honeywell first began spotlighting growth in the BRIC countries (Brazil, Russia, India and China) in 2011. Last year, these results led the survey with 42 percent of respondents reporting acquisition plans. This has lowered to 29 percent in the 2014 survey, but remains above the world average of 23 percent. Of the BRIC countries, Brazil remained a bright spot by recording the strongest new aircraft purchase plans in the survey. Overall, the BRIC countries still retain a relatively strong near-term demand profile with 45 percent of intended new jet purchases scheduled for the next two years.

Together, the results from BRIC countries evidence a continued tempering of enthusiasm compared with a year ago but are still quite strong when compared with other regions, or with results accrued during the more than 20 years Honeywell has been conducting the survey.

Asia Pacific

Operators in the Asia Pacific region, where many of the industry's major players still have high expectations for long-term future growth, report new jet acquisition plans for 12 percent of their fleet. This is much lower than the 24 percent reported last year and has slipped below the world average. Disappointing growth figures from several major regional economies, higher levels of regional tensions and government austerity initiatives have muted operator enthusiasm in the current survey. As a result, the total share of global demand over the next five years for Asia Pacific is about 3 percent, off two points from 2013 levels.

Fleets in this region have been growing at double-digit rates throughout the past five years and should continue to expand at strong, if slightly slower, rates over the next few years. This year, almost 30 percent of respondents are scheduling their new purchases within the first year of the five-year horizon. When comparing purchase timing in Asia Pacific between the past two surveys, it is evident that the front-loaded profile has resurfaced and should help bridge the gap to improved operator sentiments in the future.

Most operator concerns centered on the economic tempering, tensions and fiscal austerity affecting several of the region's major economies. However, this is a topical phenomenon as most forecasts call for a relatively strong recovery in economic growth within the region over the next five years.

"Survey findings from this part of the world rely on a smaller base of operator pools, and we do not believe the 2014 results represent any long-term structural change in the region's fundamental underlying growth drivers or commitment to business aviation," Sill said.

Middle East and Africa

The share of projected five-year global demand attributed to the Middle East and Africa region moved below its historical range of 4 to 7 percent this year.

In the Middle East and Africa, 18 percent of respondents' fleets are projected to be replaced or added to with a new jet purchase, down from 26 percent last year. The level of purchase plans is under the world average and unsurprising in that it has been a year of significant political upheaval and ongoing conflict in the region as well as a year in which oil prices have drifted lower and health crises have emerged in Africa. Regional distress has taken a toll, with operators in the region scheduling their purchases later in the next five-year window than expected last year, with only 21 percent of purchases planned before 2017.

Latin America

Latin America's survey results indicate 28 percent of the sample fleet will be replaced or added to with new jet purchases, which is 11 points lower than last year's result. The 2014 results remain above the world average, and planned acquisitions remain more front-loaded than the world average, with almost 47 percent of this region's projected purchases timed to happen between 2014–2016. As a result of the current purchase plan levels, Latin America's share of total projected demand holds relatively steady compared with a year ago at 17 percent.

North America

North America, the industry's mainstay market, has seen new jet purchase plan levels slip about six points to 22 percent, just under the world average of 23 percent, after averaging near 25 percent for the past six years. Though buying plan levels might be moderate when compared with emerging markets, North America represents nearly 60 percent of projected global demand for the next five years based on the region's larger installed business jet base, affirming the region's unquestionable importance to the industry's future.

Timing of North American acquisitions has been deferred compared with other regions, suggesting that despite aggregate five-year interest levels reported by potential purchasers, short-term conversion plans could be moderate until 2016.

Europe

Europe's purchase expectations jumped this year, to 31 percent, and are now back in line with the 30 to 33 percent levels seen in the three surveys before 2013. The European share of estimated global five-year demand also moved back in line with norms at 18 percent in the 2014 survey. European operators are still contending with sluggish growth and increased political tensions.

Within the current setting, the buoyancy of operator attitudes is surprising. Russia, which supported the region before 2013 with strong local purchasing ambitions, has slipped in reported purchase plans in the 2014 survey, as Western sanctions expanded over the Ukraine crisis. Honeywell must note that Russian responses in this year's survey were again limited, so the small sample has an added element of volatility.

A comparison of the planned timing for European purchases indicates uneven proportions of demand in the next three years of the five-year window, with about 20 percent allocated through 2015 followed by a 13 percent dip in 2016 and a strong rebound to over 30 percent in 2017.

"The long-term macro trends that support demand for business jets are still in place, notwithstanding the topical issues we find coloring responses to the 2014 Operator Survey," Sill said. "We believe global business aviation growth will be aided by structural and regulatory reforms, longer-term economic growth and aircraft innovation. As a systems supplier, we believe product innovation in the form of aircraft connectivity and communication technology solutions like the JetWave Ka-band satellite connectivity system, safety and situational awareness offerings like the IntuVue weather radar, as well as flexible service offerings and value-added upgrades, will support the expanded use of business aircraft as a key tool in the global economy."

USED JETS AND FLIGHT ACTIVITY

Shifting from jet purchases to flight activity, over the course of the past year the pace of recovery has improved but remains somewhat mixed. Much of the ground lost by operations during the 2009 recession still remains to be recaptured, while moderate improvements in international flight activity and in U.S. operations in general have continued into 2014.

Among the indices followed by Honeywell, pre-owned jets for sale and flight activity continue to receive special attention.

The number of pre-owned jets for sale today has fallen from a year ago. Approximately 10 percent of today's fleet is up for resale, down from a high of nearly 16 percent reached in 2009. Current levels are normal in light of the past decade's history; meanwhile, asking prices continue to drift lower.

Before 2008, younger inventory (10 or fewer years old) usually made up 20 percent of what was for sale, but this year, the percentage of younger used jets still hovers at just over a quarter of all listings. This is down from record averages of about 30 percent reached in 2009. In 2014, improvements have occurred in the total young jet listings but in proportion to the decline in overall listings, keeping the overall share stable. Operator respondents increased their used jet acquisition plans moderately again in this year's survey by about two points, equating to 28 percent of their fleets in the next five years.

All regions posted increased used jet buying plans except Latin America. The used jet purchase plan increases over the last two surveys mesh nicely with the observed decline in used inventory for sale. Honeywell also sees increases in regions that experienced declines in new jet purchase plans, perhaps reflecting a shift in the near term to a more financially conservative approach to upgrading or expanding business jet fleets with used equipment.

Prospects for improved levels of flying activity in the near future remain modest. Honeywell expects U.S. business jet cycles to close this year with an expansion of about 5 to 6 percent, largely driven by international flight growth and relatively strong charter operations. 2015 should also bring growth in the low single digits.

European activity in 2014 — which does not include Russia in this case — is expected to decline approximately 1 percent. International flights (outside the EU) are actually slightly positive thus far this year. Modest growth is expected in 2015, driven in part by improved economic prospects in Western and Central Europe but remaining exposed to further drags imposed by the ongoing political tensions present with Russia.

FRACTIONAL MARKET

Flight activity for charter-like operations and fractional ownership appears to be doing relatively well in the U.S. but not yet translating into many new aircraft deliveries. Fractional operators have taken only 11 new jets through mid-year. Large order backlogs accumulated over the past two years should impact delivery performance favorably beginning in the second half of 2014 based on delivery schedules.

METHODOLOGY

Honeywell's forecast methodology is based on multiple sources including, but not limited to, macroeconomic analyses, original equipment manufacturers' development plans shared with the company, and expert deliberations from aerospace industry experts. Honeywell also taps into information gathered from interviews conducted during the forecasting cycle with over 1,500 non-fractional business jet operators worldwide. The survey sample is representative of the entire industry in terms of geography, operation and fleet composition. This comprehensive approach provides Honeywell with unique insights into operator sentiments, preferences and concerns, and provides considerable insight into product development needs and opportunities.

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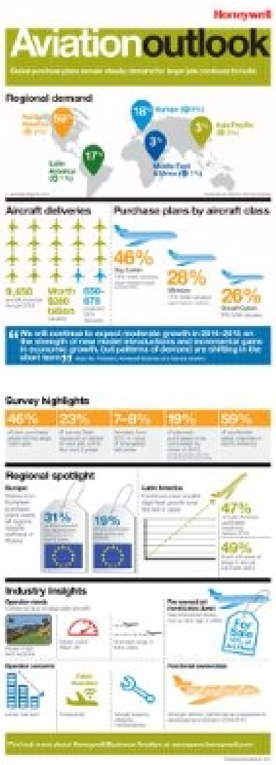

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