

Textron Inc. (TXT)

\$27.34 (As of 04/06/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: C

Summary

Textron operates in a highly competitive market, which makes it necessary for the company to keep upgrading its technology to remain competitive in the market, thereby necessitating heavy research and development expenditure. Furthermore, the certification procedure for its Citation Longitude was delayed by 18 months, which has led to a rise in overall costs. Also, As a result of this technical issue, the number of ground and flight test conditions required to cater to the issue nearly doubled. Its shares have also underperformed the industry in the past twelve months. However, Textron has been innovating products to capture more shares in the market place. It continues to witness notable order inflows, which in turn should boost its revenue growth along with expanding global footprint, moving ahead.

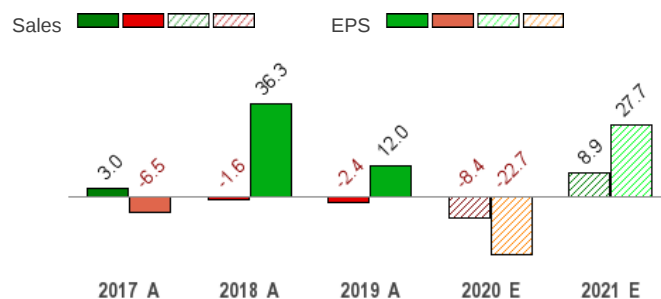
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.00 - \$20.26
20 Day Average Volume (sh)	3,037,788
Market Cap	\$6.2 B
YTD Price Change	-38.7%
Beta	1.88
Dividend / Div Yld	\$0.08 / 0.3%
Industry	Aerospace - Defense
Zacks Industry Rank	Top 34% (86 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	-18.9%
Expected Report Date	04/22/2020
Earnings ESP	-13.9%
P/E TTM	7.3
P/E F1	9.5
PEG F1	0.8
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					13,595 E
2020	2,910 E	2,804 E	3,081 E	3,687 E	12,482 E
2019	3,109 A	3,227 A	3,259 A	4,035 A	13,630 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.69 E
2020	\$0.48 E	\$0.51 E	\$0.60 E	\$0.88 E	\$2.89 E
2019	\$0.76 A	\$0.93 A	\$0.95 A	\$1.11 A	\$3.74 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/06/2020. The reports text is as of 04/07/2020.

Overview

Textron Inc., incorporated in 1923, is a global multi-industry company that manufactures aircraft, automotive engine components and industrial tools. It also offers solutions and services for aircraft, fastening systems, and industrial products and components. Its products include commercial and military helicopters, light- and mid-size business jets, plastic fuel tanks, automotive trim products, golf carts and utility vehicles, turf-car equipment, industrial pumps and gears, engineered fastening systems and solutions, and other industrial products. It is also a commercial finance company in select markets. Textron is known globally for its most recognizable and valuable brand names, such as Bell Helicopter, Cessna Aircraft Company, Jacobsen, Kautex, E-Z-GO and Greenlee.

Textron operates through five segments – Bell, Textron Systems, Textron Aviation, Industrial and Finance.

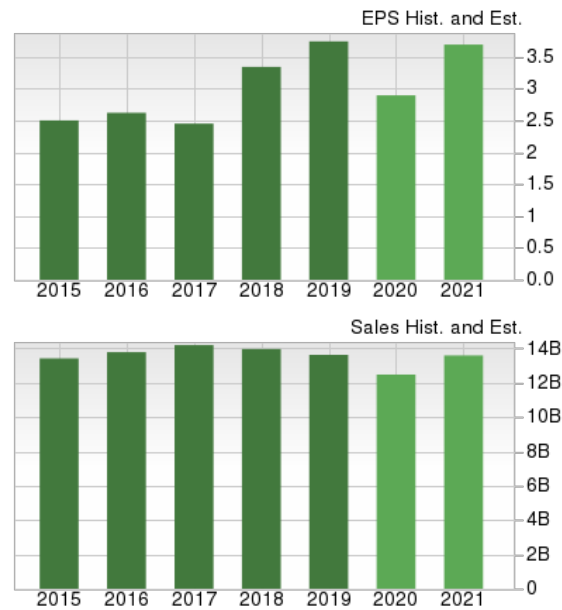
The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2019 were \$3,254 million, representing 23.9% of the top line.

The **Textron Systems** unit is a provider of integrated fastening systems solutions, which include fasteners, engineered assemblies and automation equipment. Segment revenues in 2019 were \$1,325 million, contributing 9.7% to the top line.

Textron Aviation's principal markets are general aviation aircraft, business jets and commercial transportation. Segment revenues in 2019 were \$5,187 million, contributing 38% to the top line.

The **Industrial** segment manufactures and sells miscellaneous industrial products, such as golf carts, off-road utility vehicles, plastic fuel systems, and industrial pumps and gears. Segment revenues in 2019 were \$3,798 million, accounting for 27.9% of the top line.

Textron Financial Corporation (TFC) is a commercial finance business with operations in aircraft finance, asset-based lending and structured finance. Segment revenues in 2019 were \$66 million, constituting 0.5% of the top line.



Reasons To Sell:

- ▼ The company operates in a highly competitive market. Some competitors may have more extensive or specialized business segments. Meanwhile, others may develop their own products and directly compete with the company for sales. Thus, it has to keep upgrading its technology to remain competitive in the market, thereby necessitating heavy research and development expenditure.
- ▼ Per a report by Flight Global, the certification procedure for the company's Citation Longitude was originally expected in 2017. However, the completion of this procedure was delayed by approximately 18 months due to issues pertaining to the Federal Aviation Administration (FAA)'s flammability requirements for the Longitude's fuel tank. As a result of this technical issue, the number of ground and flight test conditions required to cater to the issue nearly doubled. Also, the eighteen-month delay led to a rise in overall costs for the company. This may have caused Textron's investors to lose confidence in this stock. Evidently, in a year's time, shares of the company have lost 46.9% against the industry's 33.5% decline..
- ▼ Textron had a notable long-term debt of \$2,563 million as of Jan 4, 2020. The company's interest expense also increased a massive 8.1% year over year to \$146 million, at the end of 2019. Such rising debt levels and other expenses can turn out to be a major headwind for the company, going ahead, as it may require Textron to dedicate a substantial portion of its cash flow from operations to payments on the existing indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes.

A comparative analysis of Textron's historical EV/EBITDA ratio reflects a relatively gloomy picture that might be a cause of concern for investors. Moreover, it faces stringent competition.

Risks

- Textron continues to witness notable order inflows, which in turn should boost its revenue growth moving ahead. During the third quarter, the company signed an agreement to supply Cessna Skyhawk aircraft to Embry-Riddle Aeronautical University. The deal includes an initial purchase of at least 60 aircraft between 2019 and 2022, with options for additional units. Such contract wins, eventually translating into successful deliveries, bolsters the company's revenue growth. Evidently, during the third quarter, Bell segment witnessed revenue growth, largely due to commercial deliveries of Textron's 407 and 429 aircraft. These order flows not only strengthen Textron's revenue generating capacity but also expands its footprint across the world, courtesy of solid demand for its products outside the domestic market. Looking ahead, Textron expects a ramp up of its commercial deliveries, which should further boost its top line.
 - Textron has been innovating new products to capture more shares in the market place. In this regard, it is imperative to mention that the company's V-280 tiltrotor delivered performance milestones beyond expectations in 2019. It achieved a cruising speed of more than 300 knots and executed numerous, consecutive multi-sortie days of flight operations. The V-280 tiltrotor also delivered low-speed agility to meet the Army's Level 1 Handling Qualities requirements.
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Last Earnings Report

Textron's Q4 Earnings Top Estimates, Revenues Rise Y/Y

Textron Inc. reported fourth-quarter 2019 adjusted earnings of \$1.11 per share, which surpassed the Zacks Consensus Estimate of \$1.08 by 2.8%. The bottom line however declined 3.5% from \$1.15 in the year-ago quarter.

Including a one-time special charge, the company posted GAAP earnings of 87 cents per share compared with \$1.02 generated in the year-ago-quarter.

This year-over-year decline can be attributed to lower segment profit recorded by the company in the quarter under review.

For 2019, Textron generated adjusted earnings of \$3.50 per share, which missed the Zacks Consensus Estimate of \$3.71 by 5.7%. The bottom line also declined 27.5% from \$4.83 last year.

Revenues

Total revenues came in at \$4,035 million, which surpassed the Zacks Consensus Estimate of \$3,856 million by 4.6%. Moreover, the reported figure increased 7.6% from the year-ago quarter's \$3,750 million on higher contributions from the company's segments, except Industrial segments.

Manufacturing revenues increased 7.6% to \$4,016 million, while revenues at the Finance division grew 5.6% to \$19 million.

Segmental Performance

Textron Aviation: In the quarter under review, revenues at this segment rose 11.4% to \$1,729 million from \$1,552 million in the year-ago quarter. The growth can be attributed to higher volume and mix.

The company delivered 71 jets, up from 63 in the year-ago quarter. It also delivered 59 commercial turboprops, down from 67 in fourth-quarter 2018.

The segment registered profits of \$134 million in the quarter, up from \$170 million in the year-ago quarter, owing to the mix of products sold and an unfavorable impact from inflation, net of pricing. The order backlog at the end of the quarter was \$1.7 billion.

Bell: Revenues from this segment were \$961 million, up 16.2% from the year-ago quarter's \$827 million, primarily due to higher commercial volume.

The segment delivered 76 commercial helicopters in the quarter, up from 46 last year.

Segment profits were up 9.3% to \$118 million on account of higher commercial volume. Bell's order backlog at the end of the quarter was \$6.9 billion, up \$1.3 billion sequentially.

Textron Systems: Revenues at this segment came in at \$399 million, up from \$345 million a year ago. The downside can be primarily attributed to higher volume.

Segmental profits decreased 10.8% year over year to \$33 million in the fourth quarter.

Textron Systems' backlog at the end of the fourth quarter was \$1.2 billion, lower than \$1.4 billion at the end of the previous quarter.

Industrial: Revenues at this segment declined 8% to \$927 million, primarily due to lower volume and mix, primarily at Textron Specialized Vehicles.

Moreover, segmental profits declined from \$73 million in the fourth quarter of 2018 to \$44 million on account of lower volume at Textron Specialized Vehicles.

Finance: Revenues at this segment increased to \$19 million from \$18 million in the year-ago quarter. Segmental profits increased by \$2 million from fourth-quarter 2018.

Financials

As of Jan 4, 2020, cash and cash equivalents totaled \$1,181 million compared with \$987 million as of Dec 29, 2018.

Cash inflow from operating activities amounted to \$960 million at the end of 2019 compared with cash inflow of \$1,127 million at the end of the prior-year period.

Capital expenditures were \$339 million in 2019 compared with \$369 million in 2018.

Long-term debt was \$2,563 million as of Jan 4, 2020, compared with \$2,808 million as of Dec 29, 2018.

Guidance

Textron issued its guidance for 2020. The company currently expects full-year earnings from continuing operations in the range of \$3.5-\$3.7 per share.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	4.64%
EPS Surprise	2.78%
Quarterly EPS	1.11
Annual EPS (TTM)	3.75

The Zacks Consensus Estimate for current-year earnings is \$3.61, which lies just above the midpoint of the guided range.

Textron also gave its expectation for manufacturing cash flow before pension contributions in the range of \$700-\$800 million.

Valuation

Textron's shares are down 38.7% in the year to date period and 51.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 32.8% and 34.8% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.5% and 32.5%, respectively.

The S&P 500 index is down 22.6% in the year to date period and 14.1% in the past year.

The stock is currently trading at 7.4X forward 12-month earnings, which compares to 16.0X for the Zacks sub-industry, 15.3X for the Zacks sector and 15.7X for the S&P 500 index.

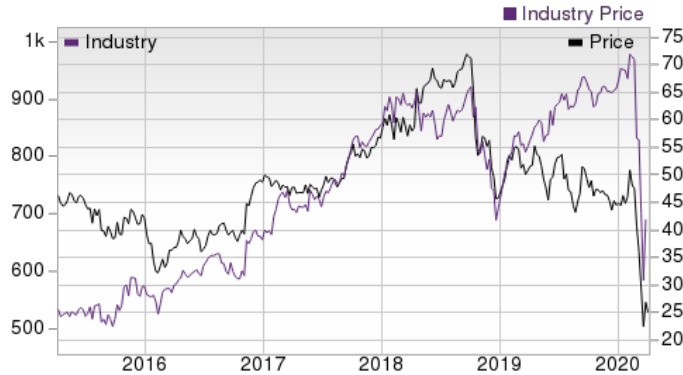
Over the past five years, the stock has traded as high as 23.3X and as low as 6.9X, with a 5-year median of 14.9X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 6.2X earnings value.

The table below shows summary valuation data for TXT

Valuation Multiples - TXT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	7.4	15.96	15.28	15.73
	5-Year High	23.29	22.54	21.46	19.34
	5-Year Low	6.85	14.52	14.34	15.19
	5-Year Median	14.85	17.09	17.07	17.44
P/S F 12M	Current	0.44	1.08	0.89	2.72
	5-Year High	1.22	1.64	1.33	3.44
	5-Year Low	0.4	0.95	0.75	2.54
	5-Year Median	0.85	1.26	1.04	3
EV/EBITDA TTM	Current	5.9	12.84	11.55	9.1
	5-Year High	14.91	19.53	17.85	12.87
	5-Year Low	5.03	8.12	6.96	8.27
	5-Year Median	10.15	11.66	9.95	10.78

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 253)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
Embraer-Empresa Brasileira de Aeronautica (ERJ)	Neutral
General Dynamics Corporation (GD)	Neutral
L3Harris Technologies Inc (LHX)	Neutral
Lockheed Martin Corporation (LMT)	Neutral
Northrop Grumman Corporation (NOC)	Neutral
The Boeing Company (BA)	Underperform
Airbus Group (EADSY)	Underperform

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	TXT Underperform	X Industry	S&P 500	GD Neutral	LMT Neutral	NOC Neutral
VGM Score	B	-	-	B	C	B
Market Cap	6.22 B	7.89 B	18.06 B	38.80 B	103.66 B	55.71 B
# of Analysts	5	5	13	8	8	6
Dividend Yield	0.29%	0.85%	2.34%	3.05%	2.61%	1.59%
Value Score	A	-	-	B	D	C
Cash/Price	0.24	0.10	0.06	0.02	0.02	0.04
EV/EBITDA	5.31	9.44	11.15	8.54	12.50	16.50
PEG Ratio	0.77	1.55	1.87	1.38	2.22	NA
Price/Book (P/B)	1.13	2.80	2.46	2.85	32.73	6.32
Price/Cash Flow (P/CF)	4.85	9.44	9.59	8.98	13.99	12.05
P/E (F1)	9.70	12.65	15.66	10.86	15.25	14.43
Price/Sales (P/S)	0.46	0.89	1.92	0.99	1.73	1.65
Earnings Yield	10.57%	6.43%	6.30%	9.21%	6.56%	6.93%
Debt/Equity	0.59	0.82	0.70	0.66	3.60	1.60
Cash Flow (\$/share)	5.63	2.33	7.01	14.89	26.30	27.58
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	9.06%	13.39%	10.92%	7.05%	16.29%	23.28%
Proj. EPS Growth (F1/F0)	-22.62%	8.30%	0.33%	2.75%	9.89%	8.59%
Curr. Cash Flow Growth	0.31%	4.55%	5.93%	3.16%	18.08%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	3.22%	6.40%	8.55%	6.36%	9.70%	14.43%
Current Ratio	2.06	1.22	1.24	1.18	1.22	1.13
Debt/Capital	37.06%	47.20%	42.36%	39.89%	78.24%	61.48%
Net Margin	5.98%	6.01%	11.64%	8.85%	10.42%	6.64%
Return on Equity	16.16%	16.94%	16.74%	26.70%	198.95%	39.51%
Sales/Assets	0.92	0.84	0.54	0.81	1.24	0.84
Proj. Sales Growth (F1/F0)	-8.42%	0.83%	1.00%	1.32%	6.64%	5.29%
Momentum Score	C	-	-	C	C	C
Daily Price Chg	10.02%	6.69%	7.93%	6.37%	4.98%	5.97%
1 Week Price Chg	-6.89%	-6.53%	-4.40%	-3.38%	0.61%	0.47%
4 Week Price Chg	-11.89%	-11.39%	-6.89%	-10.89%	4.52%	6.08%
12 Week Price Chg	-39.30%	-34.01%	-24.81%	-26.19%	-12.19%	-11.81%
52 Week Price Chg	-46.91%	-15.99%	-17.63%	-22.41%	20.38%	20.02%
20 Day Average Volume	3,037,788	1,614,673	4,147,873	2,848,978	2,733,512	1,607,542
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.88%	-0.14%	-4.97%	-3.29%	0.00%	-0.12%
(F1) EPS Est 12 week change	-20.28%	-5.93%	-6.79%	-4.55%	-0.57%	0.43%
(Q1) EPS Est Mthly Chg	-36.93%	-0.29%	-7.32%	-5.80%	0.09%	-0.18%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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