

## Textron Inc. (TXT)

**\$39.12** (As of 06/05/20)

Price Target (6-12 Months): **\$33.00**

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:F

Value: D

Growth: F

Momentum: C

## Summary

Textron's Industrial segment has been significantly impacted recently due to reduced demand, temporary manufacturing facility closures throughout the world and employee furloughs, on account of the coronavirus pandemic. Moreover, the company had to delay delivery as customers were unable to accept aircraft due to the COVID-19-related travel restrictions. Although the difference between long-term debt value and cash reserve is not much and its current debt also remains lower than the cash balance, the company's financial ratio does not seem very impressive. Its shares have also underperformed the industry in the past 12 months period. In March 2020, Textron observed a significant decline in market valuation of its common shares. However, the company continues to witness moderate order inflows.

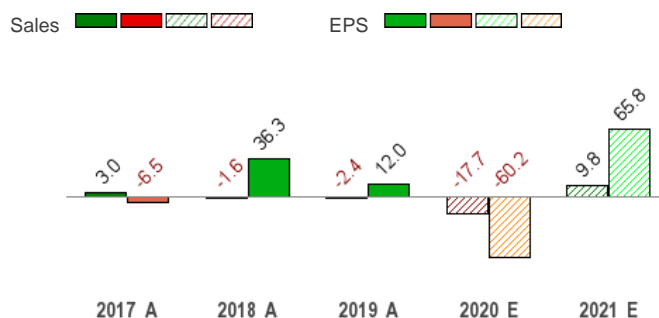
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$54.24 - \$20.26
20 Day Average Volume (sh)	1,592,489
Market Cap	\$8.9 B
YTD Price Change	-12.3%
Beta	1.66
Dividend / Div Yld	\$0.08 / 0.2%
Industry	<a href="#">Aerospace - Defense</a>
Zacks Industry Rank	Bottom 29% (180 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.9%
Last Sales Surprise	-4.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/15/2020
Earnings ESP	0.0%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,317 E
2020	2,777 A	2,289 E	2,718 E	3,435 E	11,218 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					\$2.47 E
2020	\$0.35 A	-\$0.14 E	\$0.31 E	\$0.82 E	\$1.49 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.

P/E TTM	11.7
P/E F1	26.3
PEG F1	2.1
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

## 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.

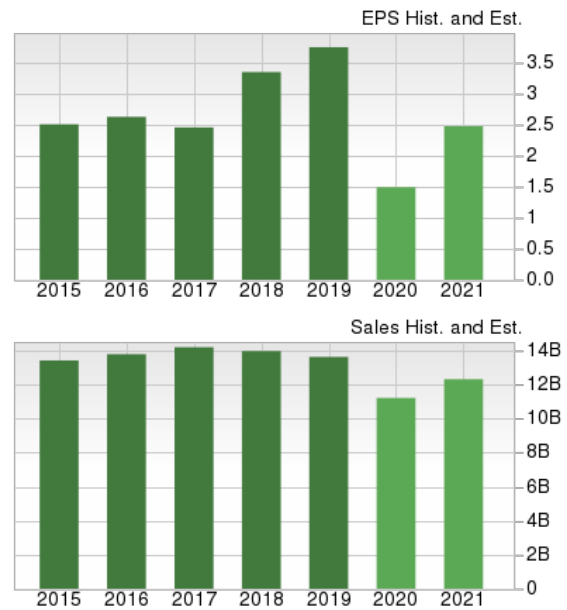
The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2019 were \$3,254 million, representing 23.9% of the top line.

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.



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## Reasons To Sell:

- ▼ The COVID-19 pandemic adversely impacted revenues and segment profit for Textron's commercial businesses in the first quarter. Notably, the commercial business experienced lower demand, particularly for general aviation products and services, recreational and other specialized vehicles as well as automotive products. To be specific, as a result of the novel coronavirus outbreak, Textron Aviation experienced lower demand for its products and services and temporarily shut down most aircraft production. The segment also implemented employee furloughs.

Unfavorable financial ratio and adverse impact of the COVID-19 pandemic on the stock's operating results might be a cause of concern for investors

Textron's Industrial segment has also been significantly impacted due to reduced demand, temporary manufacturing facility closures throughout the world and employee furloughs, on account of the pandemic. Moreover, the company had to delay delivery as customers were unable to accept aircraft due to the COVID-19-related travel restrictions. With no sign of any near-term respite from the ongoing crisis associated with the pandemic, we expect Textron's operating results to be affected by these impacts, at least in the near future.

- ▼ Textron's Specialized Vehicles business unit's consumer and commercial markets in have been significantly impacted by the pandemic. Many of the dealers and retail stores that sell its products are currently closed throughout the United States and globally, and there still remains uncertainty as to when they will reopen. In addition, the severity of the economic impact of the pandemic has resulted in a substantial increase in unemployment levels with projections of a severe global recession impacting demand for products produced by this reporting unit. Textron Specialized Vehicles also serves the airline industry, which has been significantly impacted by the travel restrictions caused by the pandemic. Affected by the impact of the pandemic on its business units, in March 2020, Textron observed a significant decline in the market valuation of its common shares. Evidently, the company's shares declined 20.9% in the past one year, underperforming its industry's 15.8% decline.
- ▼ Textron's cash and cash equivalents were \$2.4 billion at the end of first-quarter 2020, while its long-term debt was \$3 billion as of Mar 31, 2020, slightly higher than the long-term debt value. Meanwhile, the company's short-term debt and current portion of long-term debt as of Mar 31, 2020 was \$1.4 billion. Although the difference between long-term debt value and cash reserve is not much and its current debt is also lower than the cash balance, the company's financial ratio does not seem very impressive.

Notably, the company's times interest earned ratio has declined sequentially. It came in at 5.7 at the end of first-quarter 2020, down from the previous quarter's 6.7. The notable decline in this ratio indicates that the firm might face difficulties to meet debt obligations in the near future. Anticipating further adverse impacts of the pandemic and the new term loan of \$500 million that it took in April, Textron suspended its share repurchase program temporarily. This may cause its investors to further lose confidence in this stock's growth prospects.

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## Risks

- Although the COVID-19 pandemic had an adverse impact on Textron's operating results, the company continues to witness notable order inflows, which in turn should boost its future revenues. In the first quarter, Textron's Bell segment hit a major milestone by clinching two significant contracts, the Future Long-Range Assault Aircraft program and the Future Attack Reconnaissance Aircraft program. Both these awards are expected to enhance the company's position in the U.S. military space. In April 2020, the company won an \$820 million follow-on production contract for the next 15 aircraft to be built by Textron Systems. These order flows not only strengthen Textron's revenue generating capacity but also expand 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 Cessna SkyCourier completed engine ground runs in March and is on track for first flight in the second quarter of 2020. In 2019, its V-280 tiltrotor achieved performance milestones beyond expectations. 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 Q1 Earnings Miss Estimates, Revenues Fall Y/Y

Textron reported first-quarter 2020 adjusted earnings of 35 cents per share, which missed the Zacks Consensus Estimate of 46 cents by 23.9%.

Including one-time pre-tax special charges, the company posted GAAP earnings of 22 cents per share compared with 76 cents generated in the year-ago-quarter.

This year-over-year decline can be attributed to COVID-19, which had an unfavorable impact on many of the company's end markets.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-4.03%
EPS Surprise	-23.91%
Quarterly EPS	0.35
Annual EPS (TTM)	3.34

### Revenues

Total revenues came in at \$2,777 million, which missed the Zacks Consensus Estimate of \$2,894 million by 4%. Moreover, the reported figure decreased 10.7% from the year-ago quarter's \$3,109 million on lower contributions from the company Aviation and Industrial segments.

Manufacturing revenues decreased 10.6% to \$2,763 million, while revenues at the Finance division declined 17.7% to \$14 million.

### Segmental Performance

**Textron Aviation:** In the quarter under review, revenues at this segment dropped 23.1% to \$872 million from \$1,134 million in the year-ago quarter. The decline was primarily due to lower volume and mix, largely the result of lower Citation jet volume and commercial turboprop volume.

The company delivered 23 jets, down from 44 in the year-ago quarter. It also delivered 16 commercial turboprops, down from 44 in first-quarter 2019.

The segment registered profits of only \$3 million in the quarter, down from \$106 million in the year-ago quarter, owing to lower volume and unimpressive performance. The order backlog at the end of the quarter was \$1.4 billion.

**Bell:** Revenues from this segment were \$823 million, up 11.4% from the year-ago quarter's \$827 million, primarily due to higher military volume.

The segment delivered 15 commercial helicopters in the quarter, down from 30 last year.

Segment profits were up 10.6% to \$115 million on account of higher military volume. Bell's order backlog at the end of the quarter was \$6.4 billion, down \$0.5 billion sequentially.

**Textron Systems:** Revenues at this segment came in at \$328 million, up from \$307 million a year ago. The upside can be primarily attributed to higher volume in most product lines.

Segmental profits decreased 7.1% year over year to \$26 million in the first quarter.

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

**Industrial:** Revenues at this segment declined 18.9% to \$740 million, primarily due to lower volume and mix in the Fuel Systems and Functional Components product line from manufacturing facility closures, as a result of COVID-19.

Moreover, segmental profits declined from \$50 million in the first quarter of 2019 to \$9 million in the first quarter of 2020 on account of lower volume and mix.

**Finance:** Revenues at this segment decreased to \$14 million from \$17 million in the year-ago quarter. Segmental profits decreased by \$3 million from first-quarter 2019.

### Financials

As of Apr 4, 2020, cash and cash equivalents totaled \$2,263 million compared with \$1,181 million as of Jan 4, 2020.

Cash outflow from operating activities amounted to \$393 million at the end of first-quarter compared with cash outflow of \$196 million at the end of the prior-year period.

Capital expenditures were \$50 million in first-quarter 2020 compared with \$59 million in first-quarter 2019.

Long-term debt was \$2,956 million as of Apr 4, 2020, compared with \$2,563 million as of Jan 4, 2020.

## Valuation

Textron's shares are down 12.2% in the year to date period and 20.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 13.3% and 19.6% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 15.8% and the Zacks Aerospace sector witnessed a 16.7% decline.

The S&P 500 index is down 0.3% in the year to date period and up 12.5% in the past year.

The stock is currently trading at 20.4 X forward 12-month earnings, which compares to 23.3X for the Zacks sub-industry, 23.5X for the Zacks sector and 23.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.3X and as low as 5.9X, with a 5-year median of 14.6X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$33 price target reflects 17.2X earnings value.

The table below shows summary valuation data for TXT

Valuation Multiples - TXT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.42	23.31	23.53	23.08
	5-Year High	23.29	23.31	23.53	23.08
	5-Year Low	5.9	14.52	14.17	15.23
	5-Year Median	14.6	17.41	17.17	17.49
P/S F12M	Current	0.76	1.43	1.28	3.59
	5-Year High	1.22	1.64	1.49	3.59
	5-Year Low	0.35	0.95	0.92	2.53
	5-Year Median	0.84	1.28	1.19	3.02
EV/EBITDA TTM	Current	8.26	21.33	12.74	11.82
	5-Year High	14.91	21.33	14.98	12.86
	5-Year Low	5.03	8.12	7.39	8.26
	5-Year Median	10.15	11.74	10.46	10.82

As of 06/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
The Boeing Company (BA)	Neutral	3
Airbus Group (EADSY)	Neutral	3
Embraer Empresa Brasileira de Aeronautica (ERJ)	Neutral	3
General Dynamics Corporation (GD)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	4
L3Harris Technologies Inc (LHX)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	TXT	X Industry	S&P 500	GD	LMT	NOC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	C	A	D
Market Cap	8.90 B	10.56 B	23.09 B	46.54 B	115.19 B	57.03 B
# of Analysts	5	4	14	8	8	7
Dividend Yield	0.20%	0.74%	1.82%	2.71%	2.34%	1.70%
Value Score	D	-	-	C	B	C
Cash/Price	0.35	0.11	0.06	0.13	0.02	0.06
EV/EBITDA	6.60	11.11	13.17	9.86	13.72	16.93
PEG Ratio	2.16	2.59	3.13	2.70	2.47	NA
Price/Book (P/B)	1.61	3.53	3.15	3.53	33.03	6.29
Price/Cash Flow (P/CF)	6.94	11.47	12.43	10.89	15.62	12.40
P/E (F1)	27.18	17.60	22.80	14.53	17.08	15.47
Price/Sales (P/S)	0.67	1.06	2.52	1.20	1.88	1.66
Earnings Yield	3.81%	3.81%	4.19%	6.89%	5.86%	6.47%
Debt/Equity	0.66	0.93	0.76	0.98	3.28	1.72
Cash Flow (\$/share)	5.63	2.73	7.01	14.89	26.30	27.58
Growth Score	F	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	9.33%	12.74%	10.87%	6.71%	17.30%	23.40%
Proj. EPS Growth (F1/F0)	-60.21%	1.87%	-10.79%	-6.79%	9.56%	4.28%
Curr. Cash Flow Growth	0.31%	6.19%	5.48%	3.16%	18.08%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	3.22%	6.62%	8.55%	6.36%	9.70%	14.43%
Current Ratio	2.07	1.32	1.29	1.34	1.23	1.29
Debt/Capital	39.66%	49.52%	44.75%	49.52%	76.64%	63.22%
Net Margin	5.16%	5.89%	10.59%	8.87%	10.21%	6.57%
Return on Equity	14.12%	14.41%	16.26%	25.92%	185.10%	39.22%
Sales/Assets	0.87	0.83	0.55	0.78	1.26	0.83
Proj. Sales Growth (F1/F0)	-17.69%	0.00%	-2.61%	-1.48%	6.19%	3.99%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	5.82%	2.22%	2.89%	3.27%	1.75%	1.89%
1 Week Price Chg	15.09%	8.41%	4.60%	5.96%	5.27%	2.85%
4 Week Price Chg	52.34%	15.74%	15.60%	27.60%	9.09%	5.54%
12 Week Price Chg	56.11%	18.49%	29.34%	22.68%	31.91%	17.76%
52 Week Price Chg	-19.14%	-7.68%	2.76%	-5.68%	16.52%	8.67%
20 Day Average Volume	1,592,489	852,123	2,537,324	1,849,179	1,375,525	951,482
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.08%	-0.37%	0.04%	0.08%
(F1) EPS Est 12 week change	-58.29%	-58.29%	-16.19%	-12.25%	-0.31%	-4.09%
(Q1) EPS Est Mthly Chg	0.00%	-0.39%	0.00%	-0.19%	-0.03%	-0.39%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	<b>D</b>
Growth Score	<b>F</b>
Momentum Score	<b>C</b>
VGM Score	<b>F</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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### Disclosures

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