

Textron Inc. (TXT)

\$45.50 (As of 01/21/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

Textron has a strong presence in diverse areas including business jets and other general aviation aircraft, helicopter, aircraft engines. It has been also innovating products to capture more shares in the market place. Textron continues to witness notable order inflows, which in turn should boost its revenue growth moving ahead. Looking ahead, it expects a ramp up of its commercial deliveries, which should further boost its top line. However, it operates in a highly competitive market. Thus, it has to keep upgrading its technology to remain competitive in the market, thereby necessitating heavy R&D expenditure. Moreover, the certification procedure for its Citation Longitude was delayed by approximately 18 months, which, in turn, led to a rise in overall costs. Textron's shares have also underperformed the industry in the past year.

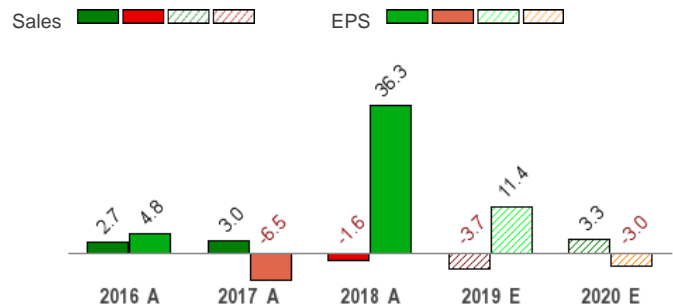
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.00 - \$42.30
20 Day Average Volume (sh)	1,142,776
Market Cap	\$10.4 B
YTD Price Change	2.0%
Beta	1.69
Dividend / Div Yld	\$0.08 / 0.2%
Industry	Aerospace - Defense
Zacks Industry Rank	Top 39% (100 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.8%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	12.0
P/E F1	12.6
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,206 E	3,416 E	3,474 E	3,778 E	13,894 E
2019	3,109 A	3,227 A	3,259 A	3,856 E	13,451 E
2018	3,296 A	3,726 A	3,200 A	3,750 A	13,972 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.75 E	\$0.91 E	\$0.86 E	\$0.99 E	\$3.61 E
2019	\$0.76 A	\$0.93 A	\$0.95 A	\$1.09 E	\$3.72 E
2018	\$0.72 A	\$0.87 A	\$0.61 A	\$1.15 A	\$3.34 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 01/21/2020. The reports text is as of 01/22/2020.

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.

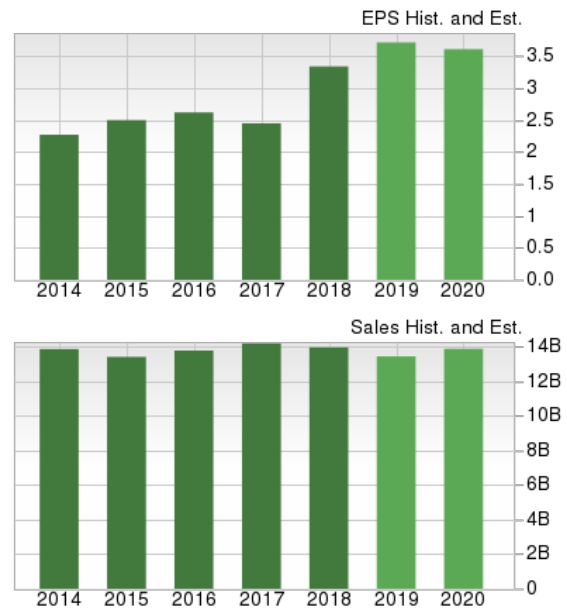
The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2018 were \$3,180 million, representing 22.8% of the top line.

The **Textron Systems** unit is a provider of integrated fastening systems solutions, which include fasteners, engineered assemblies and automation equipment. Segment revenues in 2018 were \$1,464 million, contributing 10.5% to the top line.

Textron Aviation's principal markets are general aviation aircraft, business jets and commercial transportation. Segment revenues in 2018 were \$4,971 million, contributing 35.6% 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 2018 were \$4,291 million, accounting for 30.7% 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 2018 were \$66 million, constituting 0.4% of the top line.



Reasons To Buy:

- ▲ 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 Textron continued with the flight testing and demonstration activities of the V-280 tiltrotor, which achieved a cruising speed of 300 knots in April as part of its continued successful flight test program. Textron's Citation Longitude secured Federal Aviation Administration type certification for the Cessna Citation Longitude during the third quarter and will soon begin deliveries of the super-midsize business jet. The company is also engaged in developing new high-wing, twin-turboprop Cessna SkyCourier 408 aircraft, which is expected to make its first flight in early 2020. Successful certification approval of these programs along with wide acceptance by customers is expected to improve Textron's position in the aerospace-defense space and consequently attract solid orders.
- ▲ As the current U.S. administration is in favor of investing heavily on the nation's defense, it's a golden era for the U.S. defense majors like Textron. Management at Textron is optimistic about the company's growth potential, considering the funding allotted in the fiscal 2020 budget for both the long-range assault aircraft and the attack reconnaissance aircraft programs. To this end it is imperative to mention that the U.S. Army has selected Bell along with four other defense contractors to proceed through the next phase of the Future Attack Reconnaissance Aircraft program. Moreover, Textron had secured a \$56 million contract modification to provide high subsonic and supersonic aircraft services to the U.S. Navy, extending its current contract through 2020. Such contract wins for its varied defense products indicate at the company reaping the benefits of the expanding defense budget of the nation.

Textron's solid order growth along with new product launch will improve its growth trajectory.

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 Flight Global report, 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, 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. Since delivery has not started for this jet, the delay affected the third-quarter results. Evidently, in a year's time, shares of Textron have lost 7.3% against the industry's 16.2% growth.
- ▼ Textron's stock currently has a trailing 12-month Price/Free Cash Flow (P/FCF) ratio of 37.29. This level compares unfavorably with what the stock witnessed in the past 12 months. The valuation from a P/FCF perspective also looks unfavorable when compared with its industry in the same time period. Textron's P/FCF ratio remained above the industry's ratio of 32.35 over the past year.

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.

Last Earnings Report

Textron's Q3 Earnings Beat Estimates, Revenues Miss

Textron Inc. reported third-quarter 2019 earnings from continuing operations of 95 cents per share, which surpassed the Zacks Consensus Estimate of 85 cents by 11.8%. The bottom line also increased 55.7% from 61 cents in the year-ago quarter.

This year-over-year improvement can be attributed to lower number of outstanding shares of the company in the quarter under review.

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	-2.75%
EPS Surprise	11.76%
Quarterly EPS	0.95
Annual EPS (TTM)	3.79

Revenues

Total revenues came in at \$3,259 million, which fell short of the Zacks Consensus Estimate of \$3,351 million by 2.7%. However, the reported figure increased 1.8% from the year-ago quarter's \$3,200 million on higher contributions from the company's Aviation, Bell and Industrial segments.

Manufacturing revenues increased 1.9% to \$3,245 million, while revenues at the Finance division grew 6.7% to \$14 million.

Segmental Performance

Textron Aviation: In the quarter under review, revenues at this segment rose 6% to \$1,201 million from \$1,133 million in the year-ago quarter. The growth can be attributed to higher jet and aftermarket volumes.

The company delivered 45 jets, up from 41 in the year-ago quarter. It also delivered 39 commercial turboprops, down from 43 in third-quarter 2018.

The segment registered profits of \$104 million in the quarter, up from \$99 million in the year-ago quarter, owing to higher volume and mix, and favorable performance. The order backlog at the end of the quarter was \$1.9 billion.

Bell: Revenues from this segment summed \$783 million, up 1.7% from the year-ago quarter's \$770 million, primarily due to higher commercial revenues.

The segment delivered 42 commercial helicopters in the quarter, down from 43 last year.

Segment profits were down 2.7% to \$110 million. Bell's order backlog at the end of the quarter was \$5.6 billion, down \$0.4 billion sequentially.

Textron Systems: Revenues at this segment came in at \$311 million, down from \$352 million a year ago. The downside can be primarily attributed to lower armored vehicle volumes at Textron Marine and Land Systems.

Segmental profits increased 6.9% year over year to \$31 million in the third quarter.

Textron Systems' backlog at the end of the third quarter summed \$1.4 billion, in line with the figure at the end of the previous quarter.

Industrial: Revenues at this segment rose 2.15% to \$950 million, primarily led by a favorable impact of pricing in the Textron Specialized Vehicles product line.

Moreover, segmental profits were up \$46 million from the third quarter of 2018, largely owing to a favorable performance and a positive impact of net pricing in the Specialized Vehicles product line.

Finance: Revenues at this segment decreased to \$14 million from \$15 million in the year-ago quarter. Segmental profits, however, increased \$2 million from third-quarter 2018.

Financials

As of Sep 28, 2019, cash and cash equivalents totaled \$931 million compared with \$987 million as of Dec 29, 2018.

Cash inflow from operating activities amounted to \$238 million at the end of the third quarter compared with the cash inflow of \$319 million at the end of the prior-year period.

Capital expenditures were \$81 million in the third quarter compared with \$74 million in the year-ago period.

Long-term debt was \$2,909 million as of Sep 28, compared with \$2,808 million as of Dec 29, 2018.

Guidance

Textron has slashed its guidance for 2019. The company currently expects full-year earnings from continuing operations of \$3.7-\$3.8 per share compared with \$3.65-\$3.85 anticipated earlier.

The Zacks Consensus Estimate for current-year earnings is \$3.73, which lies below the midpoint of the company's guided range.

Textron has also revised its expectation for manufacturing cash flow before pension contributions to \$600-\$700 million from \$700-\$800 million.

Recent News

On **Dec 19, 2019**, Textron announced that it has successfully mated the wings to the fuselage of the first Cessna SkyCourier twin utility turboprop prototype aircraft, a key milestone in the development of the clean-sheet aircraft.

The Cessna SkyCourier will be offered in various configurations including freighter, passenger or combi, all based on a common platform with a 6,000-pound payload. The freighter configuration is designed to accommodate three standard air cargo containers (LD3) while the passenger variant carries up to 19 passengers and baggage.

On **Dec 18, 2019**, Textron Inc.'s Bell segment clinched a contract to repair and upgrade 35 items used on the UH-1Y and AH-1Z helicopters. Majority of the work related to the deal is scheduled to be completed by Fort Worth, TX.

Valued at \$815 million, the contract was awarded by the Naval Supply Systems Command Weapon Systems Support, Philadelphia, PA. Per the terms of the contract, Textron will also be responsible for inventory management, warehousing and establishing supply response time metrics. The contract is expected to be completed by December 2024.

Valuation

Textron's shares are down 10.8% in the past six months period and down 7.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 1.4% and 5.7% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 16.2% and 24.1%, respectively.

The S&P 500 index is up 12.3% in the past six months period and up 27.8% in the past year.

The stock is currently trading at 12.46X forward 12-month earnings, which compares to 18.04X for the Zacks sub-industry, 18.41X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.29X and as low as 10.87X, with a 5-year median of 15.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$48 price target reflects 13.15X 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	12.46	18.04	18.41	19.18
	5-Year High	23.29	22.54	21.54	19.34
	5-Year Low	10.87	14.52	14.26	15.17
	5-Year Median	15.48	17.09	16.82	17.44
P/S F12M	Current	0.75	1.48	1.31	3.57
	5-Year High	1.22	1.64	1.39	3.57
	5-Year Low	0.6	0.95	0.8	2.54
	5-Year Median	0.85	1.25	1.06	3
P/B TTM	Current	1.91	12.38	9.19	4.54
	5-Year High	3.35	25.01	13.92	4.55
	5-Year Low	1.72	7	5.26	2.85
	5-Year Median	2.32	14.03	9.11	3.61

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 39% (100 out of 255)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
Airbus Group (EADSY)	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
Embraer-Empresa Brasileira de Aeronautica (ERJ)	Underperform

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	TXT Neutral	X Industry	S&P 500	GD Neutral	LMT Neutral	NOC Neutral
VGM Score	B	-	-	C	B	A
Market Cap	10.39 B	13.01 B	24.43 B	53.03 B	120.20 B	63.73 B
# of Analysts	5	5.5	13	9	9	8
Dividend Yield	0.18%	0.88%	1.75%	2.23%	2.25%	1.40%
Value Score	A	-	-	B	C	C
Cash/Price	0.10	0.02	0.04	0.02	0.02	0.02
EV/EBITDA	6.51	13.84	14.00	11.73	17.00	15.23
PEG Ratio	1.00	2.28	2.06	1.65	2.48	1.26
Price/Book (P/B)	1.90	4.60	3.39	3.92	30.53	6.55
Price/Cash Flow (P/CF)	8.62	16.00	13.69	12.64	19.17	14.19
P/E (F1)	12.53	18.56	19.00	14.21	17.56	16.45
Price/Sales (P/S)	0.78	1.36	2.68	1.36	2.06	1.92
Earnings Yield	7.93%	5.28%	5.26%	7.04%	5.70%	6.08%
Debt/Equity	0.66	0.67	0.72	0.67	3.21	1.55
Cash Flow (\$/share)	5.28	5.28	6.94	14.51	22.24	26.65
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	8.06%	12.53%	10.60%	7.41%	14.78%	22.40%
Proj. EPS Growth (F1/F0)	-2.85%	14.18%	7.57%	8.24%	12.24%	12.77%
Curr. Cash Flow Growth	16.02%	20.42%	14.00%	20.42%	24.70%	61.17%
Hist. Cash Flow Growth (3-5 yrs)	7.64%	7.81%	9.00%	6.79%	6.70%	14.12%
Current Ratio	2.15	1.16	1.23	1.11	1.28	1.29
Debt/Capital	39.80%	43.20%	42.99%	39.95%	76.27%	60.86%
Net Margin	6.46%	6.46%	11.15%	8.66%	10.26%	9.05%
Return on Equity	16.88%	19.00%	17.16%	26.79%	221.59%	39.12%
Sales/Assets	0.91	0.91	0.55	0.82	1.23	0.84
Proj. Sales Growth (F1/F0)	3.30%	4.85%	4.05%	4.41%	5.30%	5.34%
Momentum Score	F	-	-	C	B	A
Daily Price Chg	-1.34%	0.01%	-0.27%	0.77%	0.12%	-0.48%
1 Week Price Chg	4.13%	2.15%	2.29%	1.33%	2.86%	1.49%
4 Week Price Chg	1.02%	3.88%	2.13%	2.50%	9.22%	8.95%
12 Week Price Chg	-3.42%	8.91%	6.99%	4.12%	14.83%	8.92%
52 Week Price Chg	-6.09%	42.30%	21.25%	9.61%	52.42%	42.84%
20 Day Average Volume	1,142,776	545,540	1,415,064	1,066,988	1,029,792	877,189
(F1) EPS Est 1 week change	-0.55%	0.00%	0.00%	0.00%	0.04%	0.25%
(F1) EPS Est 4 week change	-1.63%	0.00%	0.00%	-0.13%	0.04%	-0.08%
(F1) EPS Est 12 week change	-3.82%	-1.05%	-0.34%	-1.05%	-1.22%	2.01%
(Q1) EPS Est Mthly Chg	-9.15%	0.17%	0.00%	0.33%	4.48%	0.92%

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.

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	F
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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