

Textron Inc. (TXT)

\$39.32 (As of 08/27/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

Textron has been innovating new products to capture more shares in the market place. Notably, Cessna SkyCourier completed a significant milestone with its first flight test in May 2020. Encouraging U.S. defense budget is expected to significantly boost growth prospects of defense primes like Textron. The company's shares have outperformed its industry in the past year. However, its commercial business unit continues to suffer, courtesy of the coronavirus pandemic impacts. Its aftermarket revenues slumped due to low overall aircraft utilization. Economic and other impacts of the pandemic may dampen demand for Textron's aviation and commercial helicopter products and services. Its poor financial ratio indicates that the firm might face difficulties to meet debt obligations in the near future.

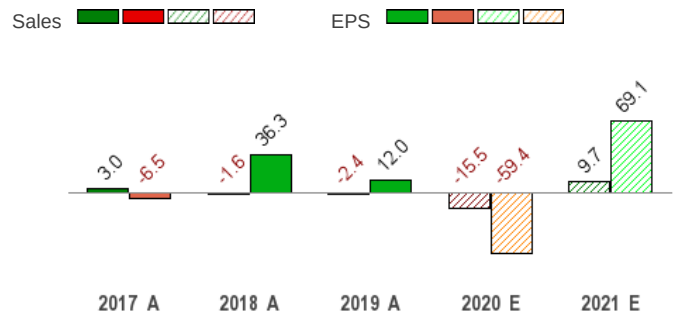
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.87 - \$20.26
20 Day Average Volume (sh)	1,225,347
Market Cap	\$9.0 B
YTD Price Change	-11.8%
Beta	1.67
Dividend / Div Yld	\$0.08 / 0.2%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 12% (223 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	186.7%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	9.5%
Expected Report Date	10/15/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	25.9
PEG F1	2.1
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,630 E
2020	2,777 A	2,472 A	2,818 E	3,446 E	11,513 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					\$2.57 E
2020	\$0.35 A	\$0.13 A	\$0.36 E	\$0.59 E	\$1.52 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, except sales and EPS estimates, is as of 08/27/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/28/2020.

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.

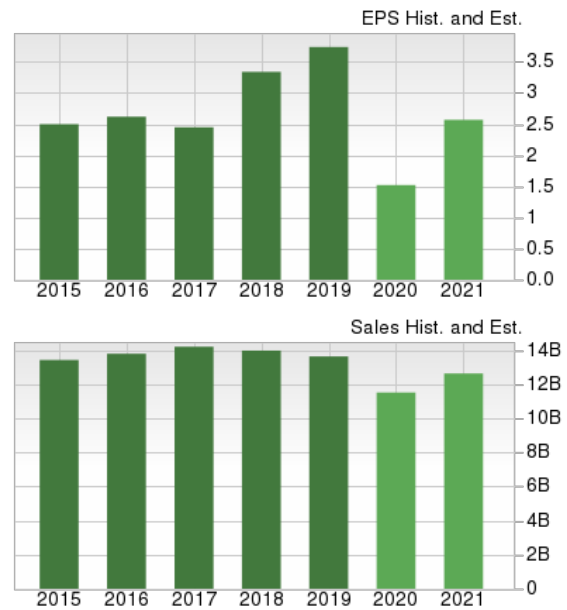
The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2019 were \$3,254 million, representing 23.9% of the top line.

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 Buy:

- ▲ 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 second quarter, Textron Systems won two FMS contracts for five Aerosonde systems, including initial spares, new equipment trading and logistics support, totaling \$44 million. In April 2020, the company won an \$820 million follow-on production contract for the next 15 aircraft to be built by Textron Systems. Moreover, in July, Textron was selected for two task orders on the U.S. Air Force CAPCAS program worth up to \$240 million. 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 Marine & Land Systems unit successfully completed both builders and acceptance trials for the next Ship to Shore Connector Craft 101 in the second quarter. Management expects to delivery this unit to the U.S. Navy in the third quarter of 2020. Meanwhile, Cessna SkyCourier completed a significant milestone with its first flight test in May 2020. Further, during the quarter, Textron achieved a number of milestones on the V-22 program, including delivery of the 400th V-22, the first delivery to the U.S. Navy of the CMV variant for the Carrier Onboard Delivery Mission, and the first international V-22 delivery to Japan. Such steady innovations are expected to boost the company's future operating results significantly and must have boosted investors' confidence in this stock. Evidently, the company's shares have declined 11.8% in the past year compared with its industry's 29.1% decline.
- ▲ The fiscal 2021 budget proposal includes \$740.5 billion as funding for the Pentagon, reflecting 3% growth over the approved fiscal 2020 President's budget. Such encouraging spending plans by the U.S. administration are expected to significantly boost growth prospects of defense primes like Textron. Notably, the company's Bell and Textron Systems units have maintained steady operational performance during the second quarter amid the pandemic-induced crisis and can be expected to generate similar performance in the days ahead. In particular, Bell executed very well in the second quarter with increased revenues from higher military volume and a 14.4% operating margin.

New product launch and favorable U.S. Defense budget will improve Textron's growth trajectory.

Reasons To Sell:

- ▼ The COVID-19 pandemic adversely impacted revenues and segment profit for Textron's commercial businesses in the second quarter. Notably, on the commercial side of Bell, Textron delivered 27 helicopters, down 49.1% year over year due to lower demand for the 505 Jet Ranger X model and to a lesser extent delivery delays, due to COVID-19 travel restrictions. The company witnessed substantial decline in demand and order cancellations for flight simulators in light of the expected long-term impact of the pandemic on the commercial air transport business.

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

On the other hand, Textron's aftermarket revenues slumped 31% due to low overall aircraft utilization. Moreover, its Industrial revenues were down from last year's second quarter owing to the temporary closures of Textron's manufacturing facilities across the globe. 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.

- ▼ Economic and other impacts of the pandemic may result in weak demand for Textron's aviation and commercial helicopter products and services, delay or cancellation of existing orders by its customers and lower flight hours, and consequently, lower demand for parts and maintenance. In addition, new regulations by U.S. or foreign governments and government agencies for the aviation or travel industry could adversely impact demand for aircraft and rotorcraft or significantly reduce hours flown. As a result, the company's costs may increase. These cost increases may not be fully recoverable, which in turn might negatively impact Textron's profitability, and may continue even after the business environment has improved.
- ▼ Textron's cash and cash equivalents were \$2.3 billion at the end of second-quarter 2020, while its long-term debt was \$3 billion as of Jun 30, 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 \$1.1 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 3.4 at the end of second-quarter 2020, down from the previous quarter's 5.7. 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 has kept its share repurchase program temporarily suspended. This may cause its investors to further lose confidence in the stock.

Last Earnings Report

Textron Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Textron reported second-quarter 2020 adjusted earnings of 13 cents per share against the Zacks Consensus Estimate of a loss of 15 cents.

Including one-time items, the company posted GAAP loss of 40 cents per share against income of 93 cents generated in the year-ago quarter.

This year-over-year deterioration can be attributed to COVID-19, which led the company to witness lower commercial volume and idle facility cost.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	5.15%
EPS Surprise	186.67%
Quarterly EPS	0.13
Annual EPS (TTM)	2.54

Revenues

Total revenues came in at \$2,472 million, which surpassed the Zacks Consensus Estimate of \$2,351 million by 5.1%. However, the reported figure decreased 23.5% from the year-ago quarter's \$3,227 million on lower contributions from the company's Aviation and Industrial segments.

Manufacturing revenues decreased 23.5% to \$2,472 million, while revenues at the Finance division declined 6.3% to \$15 million.

Segmental Performance

Textron Aviation: In the quarter under review, revenues at this segment plunged 33.5% to \$747 million from \$1,123 million in the year-ago quarter. The decline was primarily due to lower Citation jet volume, delays in the acceptance of aircraft related to COVID-19 travel restrictions, and lower aftermarket volume, reflecting lower aircraft utilization.

The company delivered 23 jets, down from 46 in the year-ago quarter. It also delivered 15 commercial turboprops, down from 34 in first-quarter 2019.

The segment incurred loss of \$66 million in the quarter, down from loss of \$105 million in the year-ago quarter, owing to lower volume and mix. The order backlog at the end of the quarter was \$1.4 billion.

Bell: Revenues from this segment were \$822 million, up 6.6% from the year-ago quarter's \$771 million, primarily due to higher military volume. The segment delivered 27 commercial helicopters in the quarter, down from 53 last year.

Segment profits were up 14.6% to \$118 million on account of higher military volume. Bell's order backlog at the end of the quarter was \$5.8 billion, down \$0.6 billion sequentially.

Textron Systems: Revenues at this segment came in at \$326 million, up from \$308 million in the year-ago period. The upside can be primarily attributed to higher volume at this unit's unmanned systems product line.

Segmental profits decreased 24.5% year over year to \$37 million in the second quarter.

Textron Systems' backlog at the end of the second quarter was \$1.9 billion, higher than \$1.4 billion at the end of the previous quarter.

Industrial: Revenues at this segment declined a huge 44.3% to \$562 million, due to lower revenues from Fuel Systems and Functional Components as well as Textron Specialized Vehicles.

Moreover, segmental loss was \$11 million compared to loss of \$76 million in the previous quarter owing to lower volume and mix.

Finance: Revenues at this segment decreased to \$15 million from \$16 million in the year-ago quarter.

Financials

As of Jul 4, 2020, cash and cash equivalents totaled \$2,176 million compared with \$1,181 million as of Jan 4, 2020.

Cash outflow from operating activities amounted to \$148 million at the end of the second quarter compared with cash outflow of \$33 million at the end of the prior-year period.

Capital expenditures were \$46 million in second-quarter 2020 compared with \$76 million in second-quarter 2019.

Long-term debt was \$2,955 million as of Jul 4, 2020, compared with \$2,563 million as of Jan 4, 2020.

Valuation

Textron's shares are down 11.8% in the year to date period and 11.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 21.3% and 31.8% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 29.1% and the Zacks Aerospace sector witnessed a 34.1% decline.

The S&P 500 index is up 8.3% in the year to date period and 19.5% in the past year.

The stock is currently trading at 17.8X forward 12-month earnings, which compares to 21.3X for the Zacks sub-industry, 21.3X for the Zacks sector and 23.4X 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 Neutral recommendation indicates that the stock will perform in line with the market. Our \$42 price target reflects 19X 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	17.78	21.32	21.29	23.36
	5-Year High	23.29	22.54	21.29	23.36
	5-Year Low	5.9	14.52	14.17	15.25
	5-Year Median	14.63	17.76	17.29	17.58
P/S F12M	Current	0.73	1.31	1.71	3.81
	5-Year High	1.22	1.64	1.71	3.81
	5-Year Low	0.35	0.95	0.92	2.53
	5-Year Median	0.83	1.28	1.18	3.05
EV/EBITDA TTM	Current	9.47	32.03	16.57	13.25
	5-Year High	14.91	32.39	16.81	13.25
	5-Year Low	5.03	8.15	7.39	8.25
	5-Year Median	10.15	11.82	10.63	10.92

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 252)



Top Peers

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

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	TXT	X Industry	S&P 500	GD	LMT	NOC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	B	A
Market Cap	8.97 B	11.52 B	23.67 B	43.74 B	110.42 B	58.18 B
# of Analysts	5	5	14	7	8	7
Dividend Yield	0.20%	0.01%	1.64%	2.89%	2.43%	1.66%
Value Score	A	-	-	B	B	B
Cash/Price	0.27	0.09	0.07	0.05	0.03	0.07
EV/EBITDA	6.70	9.93	13.33	9.45	13.18	17.00
PEG Ratio	2.07	2.37	3.05	2.65	2.37	NA
Price/Book (P/B)	1.62	3.37	3.18	3.15	29.17	5.99
Price/Cash Flow (P/CF)	6.98	10.87	12.81	10.24	15.02	12.65
P/E (F1)	26.04	16.38	21.68	13.77	16.38	15.52
Price/Sales (P/S)	0.71	1.12	2.50	1.13	1.76	1.68
Earnings Yield	3.87%	3.87%	4.43%	7.26%	6.11%	6.44%
Debt/Equity	0.66	0.75	0.74	0.75	3.22	1.61
Cash Flow (\$/share)	5.63	2.73	6.94	14.89	26.30	27.58
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	7.59%	14.85%	10.41%	6.15%	18.30%	23.60%
Proj. EPS Growth (F1/F0)	-59.30%	-3.74%	-4.94%	-7.59%	9.87%	5.99%
Curr. Cash Flow Growth	0.31%	11.64%	5.22%	3.16%	18.08%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	3.22%	7.38%	8.50%	6.36%	9.70%	14.43%
Current Ratio	2.19	1.31	1.35	1.27	1.31	1.35
Debt/Capital	39.61%	42.98%	43.86%	42.98%	76.28%	61.62%
Net Margin	3.01%	5.59%	10.25%	8.47%	10.25%	6.91%
Return on Equity	10.60%	10.92%	14.66%	24.10%	182.05%	40.24%
Sales/Assets	0.82	0.79	0.50	0.76	1.29	0.82
Proj. Sales Growth (F1/F0)	-15.53%	0.00%	-1.43%	-2.49%	8.29%	4.87%
Momentum Score	D	-	-	C	F	C
Daily Price Chg	1.26%	1.10%	0.43%	1.31%	-0.11%	2.22%
1 Week Price Chg	-2.31%	-4.20%	-1.45%	-4.25%	-0.47%	-1.23%
4 Week Price Chg	11.90%	2.94%	3.75%	2.40%	3.48%	7.05%
12 Week Price Chg	6.36%	-1.61%	3.95%	-2.96%	-2.14%	3.95%
52 Week Price Chg	-11.82%	-13.44%	2.75%	-19.54%	2.75%	-5.15%
20 Day Average Volume	1,225,347	535,697	1,887,168	1,173,725	925,395	683,574
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.29%
(F1) EPS Est 4 week change	9.50%	0.00%	0.79%	-0.58%	0.00%	1.65%
(F1) EPS Est 12 week change	2.28%	0.00%	3.43%	-0.86%	2.01%	1.65%
(Q1) EPS Est Mthly Chg	-2.50%	-1.70%	0.00%	-1.65%	0.00%	-1.74%

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	C
Momentum Score	D
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.

Disclosures

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