

## Woodward, Inc. (WWD)

**\$77.50** (As of 08/07/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

### Summary

Woodward reported unimpressive third-quarter fiscal 2020 results, with net earnings and sales declining year over year. Due to disruptions stemming from the COVID-19 crisis, the company did not provide any specific guidance for fiscal 2020. In the Aerospace segment, it is struggling with lower commercial sales due to decline in global passenger traffic and OEM production rates. The Industrial segment is facing headwinds owing to economic slump across the company's markets and weakness in oil and gas. The availability of new products and services along with changes in OEM might hamper Woodward's relationship with clients. It has a significant presence in the commercial aerospace market, which is cyclical. It faces intense competition from several players. However, the Aerospace business continues to benefit from a strong defense market.

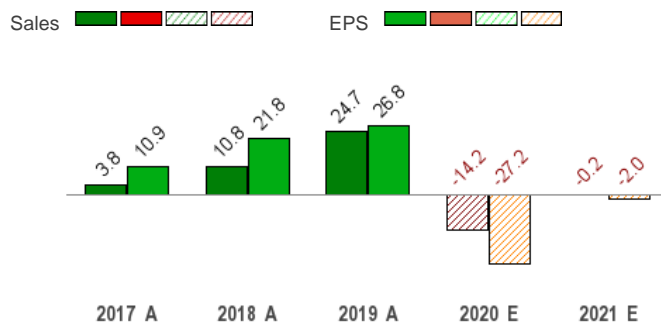
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$129.06 - \$46.51
20 Day Average Volume (sh)	373,257
Market Cap	\$5.0 B
YTD Price Change	-32.1%
Beta	1.49
Dividend / Div Yld	\$0.32 / 0.4%
Industry	<a href="#">Instruments - Control</a>
Zacks Industry Rank	Bottom 12% (222 out of 252)

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



Last EPS Surprise	41.2%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	NA
Earnings ESP	-34.2%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,482 E
2020	720 A	720 A	524 A	534 E	2,488 E
2019	653 A	759 A	752 A	737 A	2,900 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.62 E	\$0.59 E	\$0.66 E	\$3.48 E
2020	\$1.10 A	\$1.61 A	\$0.48 A	\$0.49 E	\$3.55 E
2019	\$0.96 A	\$1.40 A	\$1.30 A	\$1.22 A	\$4.88 A

\*Quarterly figures may not add up to annual.

P/E TTM	18.2
P/E F1	21.8
PEG F1	1.6
P/S TTM	1.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

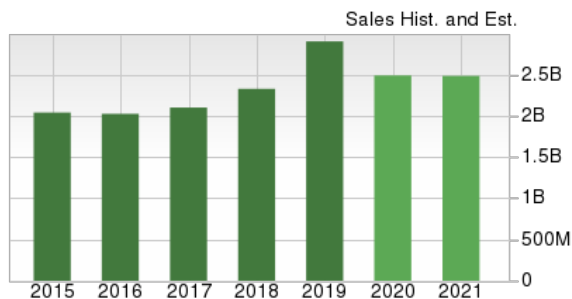
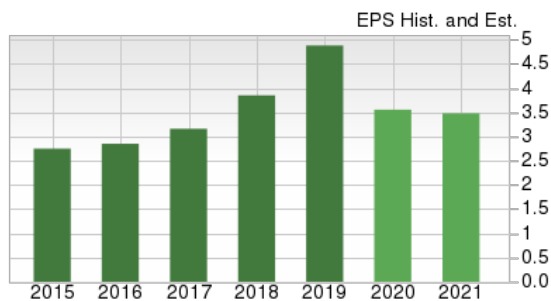
## Overview

Headquartered in Fort Collins, CO, Woodward, Inc. is an independent designer, manufacturer and service provider of energy control and optimization solutions. The company provides a wide array of products for fuel, combustion, fluid, actuation and electronic applications, which serve the commercial aerospace, business jet, military and energy markets. Apart from serving Original Equipment Manufacturers (OEMs), it also engages in aftermarket repairs, replacements and other service support operations.

Woodward serves the aerospace and energy markets through two reportable segments: Aerospace and Industrial. Both segments have multiple business groups under them.

The Aerospace segment consists of the Aircraft Turbine Systems and the Airframe Systems business groups. This segment is mainly involved in the production, designing and servicing of products for the management of fuel, air, combustion and motion. The products developed at this segment, including pumps, cockpit controls, motors and sensors, are used by commercial aircraft manufacturers like The Boeing Company and General Dynamics Corp. They are also used in military aircraft and defense systems. This segment generated revenues of \$306.5 million in third-quarter fiscal 2020, representing 58.5% of total revenues.

The Industrial segment consists of the Industrial Turbo Machinery Systems, and the Engine Systems and Electrical Power Systems business groups. This segment produces power converters, ignition systems and injectors among others and generates revenues mainly from OEMs through aftermarket sales. This segment generated revenues of \$217.3 million in third-quarter fiscal 2020, representing 41.5% of total revenues.



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## Reasons To Sell:

- ▼ Woodward is witnessing severe volatility in its markets stemming from the COVID-19 pandemic. Within the power generation market, the company is seeing demand-related challenges in the industrial gas and turbine market as well as a drop in volume tied to renewables penetration and greater energy efficiency. The weakness in the company's renewables business is due to the short-term unfavorable impact of platform transitions by some of its customers. With no notable improvement expected in these aspects before 2020, Woodward is projected to perform poorly in power generation market.
- ▼ The company has a significant presence in the commercial aerospace market, which is cyclical in nature. It also faces intense competition from a number of major players in the United States and abroad. Changes in competitive conditions, including factors like the availability of new products and services, introduction of new channels of distribution and changes in OEM and aftermarket pricing will likely hamper its association with clients and affect sales. For the near term, it expects softness in the regional aircraft. The Zacks Consensus Estimate for the company's current-year earnings has been revised 0.6% downward in the past 30 days to \$3.55.
- ▼ Woodward caters to fewer customers compared to companies with similar sales volume. Around 45% of the company's annual consolidated net sales come from its five largest customers. Therefore, loss of any one of its significant customers will have a material impact on its operational results. Woodward also faces the risk of third-party payments, which may hamper credit availability for further product offerings. Moreover, as the company caters to international customers, it is subject to risks arising from fluctuations in foreign exchange rates.
- ▼ Due to economic disruptions stemming from the pandemic, the company did not provide any specific guidance for fiscal 2020. In third-quarter fiscal 2020, Woodward's Industrial sales were down 14.2% year over year. The downside was due to the impact of COVID-19 across the company's markets and weakness in oil and gas. Net sales in Aerospace tumbled 38.6% year over year to \$306.5 million. This was a result of lower commercial sales due to the decline in global passenger traffic and OEM production rates and plant closures.

In the Aerospace segment, Woodward is struggling with lower commercial sales due to decline in global passenger traffic and OEM production rates and plant closures.

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## Risks

- Despite the Boeing 737 MAX production halt, Woodward's Aerospace business continues to benefit from a strong defense market. In the Industrial markets, while the industrial turbine market remains uncertain, the company is witnessing growth in distributed power for data center applications. Woodward L'Orange is likely to continue to augment the Industrial segment with respect to sales and earnings. Woodward is positioned to capitalize on the near-term production ramp-up along with opportunities that lies ahead. The acquisition of L'Orange, a supplier of fuel injection systems for industrial diesel, heavy fuel oil and dual-fuel, expanded its footprint in the OEM market. This enhanced Woodward's product portfolio as well as extended its presence in key end markets. The company has been shifting resources from its industrial market to support new activity in aerospace. Also, global uncertainty continues to drive increased defense activity, which in turn will likely boost Woodward's top line.
  - Woodward has been investing significantly in technologies to secure fresh businesses. It is spending on new manufacturing units and automation equipment to perk up efficiency as the company intends to accelerate production. Woodward continues to focus on diversifying its revenue stream. Its strategic plan to become a systems integrator has increased contract flow substantially enabling it to capture a larger market share in the wide-body commercial aircraft field. Increased production in this space has been observed as aircraft operators continue to take delivery of new aircraft models that are more fuel efficient and retire older. Driven by the strong demand for smart weapons, it is witnessing increase in defense sales that's coming from domestic as well as foreign military sales.
  - As of Jun 30, 2020, the company had \$101 million in cash and cash equivalents with \$729 million of long-term debt compared with the respective tallies of \$103 million and \$869 million at the end of the previous quarter. Woodward currently has a debt-to-capital ratio of 0.36 compared with 0.53 of the industry. The times interest earned (TIE) ratio has improved over the past quarters to 9 at present compared with 2.7 of the industry. This suggests that the company is likely to meet its debt obligations. Woodward has a dividend payout rate of 15.6% compared with 10.9% of the industry. The rate has also increased over the past quarters, indicating that the company is sharing more of its earnings with stockholders. It is to be seen whether Woodward can maintain the momentum in the coming days amid disruptions caused by the COVID-19 crisis.
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## Last Earnings Report

### Woodward Beats on Q3 Earnings Despite Lower Revenues

Woodward reported unimpressive third-quarter fiscal 2020 results, with net earnings and sales declining on a year-over-year basis. The company witnessed severe volatility in its markets stemming from the COVID-19 pandemic.

### Net Income

On a GAAP basis, net earnings in the quarter amounted to \$38.5 million or 61 cents per share compared with \$66.1 million or \$1.02 per share in the year-ago quarter.

Adjusted net earnings were \$30.7 million or 48 cents per share compared with \$83.9 million or \$1.30 per share in the prior-year quarter. Nevertheless, the bottom line beat the Zacks Consensus Estimate by 14 cents.

### Revenues

Net sales in the June-end quarter fell 30.3% year over year to \$523.8 million due to lower sales in the Aerospace and Industrial segments. Nevertheless, the top line surpassed the consensus estimate of \$513 million.

Excluding renewable power systems and related businesses ("RPS"), which were divested on Apr 30, net sales for the quarter would have been \$516 million compared with \$729 million in the prior-year quarter.

### Segment Results

**Aerospace:** Net sales tumbled 38.6% year over year to \$306.5 million. This was a result of lower commercial sales due to the decline in global passenger traffic and OEM production rates and plant closures. The segment continues to benefit from a strong defense market, which softened the significant impact of the rapid reduction in passenger traffic and aircraft production rates. The segment's earnings amounted to \$41.1 million, down from \$103.2 million in the year-ago quarter. The downside was caused by lower sales volume, partially offset by cost reduction initiatives.

**Industrial:** Net sales totaled \$217.3 million, down 14.2% year over year. The downside was due to the impact of COVID-19 across the company's markets, weakness in oil and gas as well as the divestiture of RPS. While results were affected by the economic slowdown, the divestiture of the renewables portfolio enhanced the segment's profitability. The segment's earnings were \$27.4 million, up from \$26.2 million in the year-ago quarter.

### Other Details

Total expenses declined to \$478.8 million from \$659.7 million year over year primarily due to the lower cost of goods sold. Adjusted EBITDA came in at \$83.7 million compared with \$142.8 million in the year-ago quarter.

### Cash Flow & Liquidity

In the first nine months of fiscal 2020, Woodward generated \$212.4 million of net cash from operating activities compared with \$219.2 million in the year-ago period. For the same period, free cash flow was \$173 million compared with \$141 million in the prior-year period. As of Jun 30, the company had \$101.4 million in cash and cash equivalents with \$729.2 million of long-term debt.

### Outlook

Due to economic disruptions stemming from the COVID-19 crisis, Woodward did not provide any specific guidance for fiscal 2020. However, it anticipates results in fiscal fourth-quarter to be similar to that in fiscal third-quarter.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	2.05%
EPS Surprise	41.18%
Quarterly EPS	0.48
Annual EPS (TTM)	4.41

## Recent News

On Apr 30, 2020, Woodward announced that it has closed the previously-announced divestiture of its renewable power systems and related businesses.

On Apr 13, Woodward communicated its decision to shift Bob Weber back to the role of vice chairman and chief financial officer.

On Apr 6, Woodward announced the mutual termination of its merger with Hexcel. The decision was made in the spirit of doing what's best for individual businesses with a focus on managing through this unprecedented crisis.

## Valuation

Woodward shares are down 24.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 10.7% over the past year, but stocks in the Zacks Computer and Technology sector are up 37.3% in the same period.

The S&P 500 Index is up 16.4% in the past year.

The stock is currently trading at 10.32X trailing 12-month EV/EBITDA, which compares to 9.38X for the Zacks sub-industry, 13.68X for the Zacks sector and 12.99X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.12X and as low as 6.51X, with a 5-year median of 14.26X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$70 price target reflects 3.03X forward 12-month earnings.

The table below shows summary valuation data for WWD

Valuation Multiples - WWD					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.32	9.38	13.68	12.99
	5-Year High	19.12	12.91	13.83	12.99
	5-Year Low	6.51	6.78	7.59	8.24
	5-Year Median	14.26	11.34	10.9	10.9
P/E F12M	Current	23.06	21.2	26.39	22.81
	5-Year High	25.73	21.2	26.39	22.81
	5-Year Low	9.3	12.28	16.72	15.25
	5-Year Median	19.34	15.7	19.47	17.55
P/S F12M	Current	2.02	2.22	4.08	3.67
	5-Year High	2.59	2.42	4.08	3.67
	5-Year Low	1.05	1.53	2.32	2.53
	5-Year Median	1.93	2.03	3.14	3.04

As of 08/07/2020

## Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Watts Water Technologies, Inc. (WTS)	Outperform	2
Allied Motion Technologies, Inc. (AMOT)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	3
Sensata Technologies Holding N.V. (ST)	Neutral	3
Thermon Group Holdings, Inc. (THR)	Neutral	3
Transcat, Inc. (TRNS)	Neutral	3
Xylem Inc. (XYL)	Neutral	3
Badger Meter, Inc. (BMI)	Underperform	5

Industry Comparison Industry: Instruments - Control				Industry Peers		
	WWD	X Industry	S&P 500	BMI	ST	WTS
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	5	3	2
VGM Score	B	-	-	C	C	B
Market Cap	5.01 B	416.57 M	23.30 B	1.97 B	6.32 B	3.08 B
# of Analysts	5	3	14	2	8	7
Dividend Yield	0.40%	0.00%	1.76%	1.01%	0.00%	1.01%
Value Score	C	-	-	F	B	C
Cash/Price	0.02	0.09	0.07	0.05	0.21	0.09
EV/EBITDA	11.39	11.66	13.32	21.88	10.21	12.66
PEG Ratio	1.75	3.54	2.94	NA	2.09	3.54
Price/Book (P/B)	2.62	2.58	3.19	5.76	2.53	3.13
Price/Cash Flow (P/CF)	10.90	14.13	12.51	27.57	7.58	16.66
P/E (F1)	23.86	28.52	22.02	45.03	23.06	28.35
Price/Sales (P/S)	1.85	1.71	2.53	4.73	2.07	2.03
Earnings Yield	4.41%	3.51%	4.37%	2.22%	4.33%	3.53%
Debt/Equity	0.46	0.36	0.77	0.00	1.30	0.27
Cash Flow (\$/share)	7.38	2.22	6.94	2.45	5.30	5.48
Growth Score	B	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	17.00%	12.85%	10.46%	13.89%	5.10%	13.92%
Proj. EPS Growth (F1/F0)	-27.17%	-28.79%	-6.80%	45.63%	1,642.50%	NA
Curr. Cash Flow Growth	26.08%	4.02%	5.39%	3.00%	-3.40%	5.03%
Hist. Cash Flow Growth (3-5 yrs)	13.42%	6.29%	8.55%	8.54%	5.87%	6.29%
Current Ratio	2.25	3.13	1.33	3.56	2.46	2.39
Debt/Capital	31.30%	26.17%	44.50%	0.00%	56.58%	21.04%
Net Margin	9.48%	4.18%	10.13%	11.15%	2.96%	7.67%
Return on Equity	18.93%	12.03%	14.39%	13.93%	15.56%	13.15%
Sales/Assets	0.73	0.81	0.51	0.97	0.44	0.89
Proj. Sales Growth (F1/F0)	-14.22%	-5.53%	-1.51%	-5.24%	-18.74%	-10.17%
Momentum Score	B	-	-	D	F	C
Daily Price Chg	3.81%	2.54%	0.90%	2.91%	1.57%	2.66%
1 Week Price Chg	-6.34%	-0.72%	0.14%	-0.89%	-6.04%	-0.55%
4 Week Price Chg	11.09%	11.19%	8.95%	9.43%	11.30%	15.86%
12 Week Price Chg	45.56%	22.36%	18.90%	23.63%	21.10%	24.41%
52 Week Price Chg	-25.67%	3.11%	1.18%	23.02%	-12.99%	-3.49%
20 Day Average Volume	373,257	76,779	2,057,775	149,746	1,340,070	130,953
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	4.24%
(F1) EPS Est 4 week change	-0.43%	0.00%	1.36%	-5.36%	-0.14%	6.84%
(F1) EPS Est 12 week change	-2.41%	-2.41%	1.57%	-5.36%	-0.14%	-9.44%
(Q1) EPS Est Mthly Chg	-1.62%	-1.62%	0.54%	-3.75%	-2.27%	14.95%

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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	C
Growth Score	B
Momentum Score	B
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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### Disclosures

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