



# Texttron, Inc. (TXT)

Updated November 4<sup>th</sup>, 2021 by Prakash Kolli

## Key Metrics

|                             |      |  |       |                                  |          |
|-----------------------------|------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$77 | <b>5 Year CAGR Estimate:</b>               | -1.9% | <b>Market Cap:</b>               | \$16.60B |
| <b>Fair Value Price:</b>    | \$52 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 12/09/21 |
| <b>% Fair Value:</b>        | 148% | <b>5 Year Valuation Multiple Estimate:</b> | -7.6% | <b>Dividend Payment Date:</b>    | 01/01/22 |
| <b>Dividend Yield:</b>      | 0.1% | <b>5 Year Price Target</b>                 | \$70  | <b>Years Of Dividend Growth:</b> | 0        |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | D     | <b>Last Dividend Increase:</b>   | 0.0%     |

## Overview & Current Events

Texttron Inc. is a diversified conglomerate. The company develops and manufactures military aircraft, military munitions, civilian aircraft, recreational vehicles, engines, etc. Texttron also provides services and maintenance. The company is organized into five business segments: Texttron Aviation, Bell Helicopter, Texttron Systems, Industrial, and Finance. Texttron receives about 60% of its revenue from the Aviation and Bell segments. Major brands include Bell, Cessna, Beechcraft, Hawker, Lycoming, Arctic Cat, Cushman, and EZ-GO. The company had revenue of about \$11.7B in 2020.

Texttron reported another excellent quarter for Q3 2021 results on October 28<sup>th</sup>, 2021. Companywide revenue increased 9.3% to \$2,990M from \$2,745M while diluted GAAP earnings per share increased to \$0.82 from \$0.50 on a year-over-year basis. On an adjusted basis, earnings per share increased to \$0.85 from \$0.53. Revenue and earnings rose on higher volumes at the Aviation and Manufacturing segments. Texttron delivered more business jets.

Revenues at Texttron Aviation of \$1,181M grew 48.6% from \$795M in the prior year. Total jet deliveries for the quarter were 49 versus 25 in the prior year. Commercial turboprop deliveries were 35 up from 21 last year. Bell Helicopter revenue decline (-3.0%) to \$769M from \$793M in comparable quarters. Commercial volume fell to 33 helicopters versus 41 last year and military volume was 9 versus 12 last year. Texttron Systems revenue fell (-1.0%) to \$299M from \$302M in the prior year as sales declined after the Afghanistan withdrawal. Industrial revenue decreased (-12.3%) to \$730M from \$832M due to lower volumes in Fuel Systems and Functional Components offset by Specialized Vehicles.

Texttron's backlog is still healthy with \$3.5B in Texttron Aviation, \$4.1B in Bell, and \$2.2B in Texttron Systems.

Texttron guided for about \$12.5B in revenue and increased adjusted earnings per share to \$3.20 - \$3.30 in 2021.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.31 | \$1.97 | \$1.75 | \$2.15 | \$2.50 | \$3.09 | \$2.15 | \$3.18 | \$3.74 | \$2.07 | <b>\$3.25</b> | <b>\$4.35</b> |
| <b>DPS</b>                | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | \$0.08 | <b>\$0.08</b> | <b>\$0.08</b> |
| <b>Shares<sup>1</sup></b> | 279    | 271    | 282    | 277    | 274    | 270    | 262    | 236    | 228    | 226    | <b>224</b>    | <b>213</b>    |

Earnings-per-share have been very volatile during the past decade as the company experiences waxing and waning demand in its various business segments. Revenue growth continues to be challenging for Texttron. Despite recent higher U.S. defense spending, Texttron does not seem to be benefitting to the same extent as its competitors. The withdrawal from Afghanistan will be a drag on revenue growth. More recently, COVID-19 was having a material impact on the company's end markets, especially commercial aviation and industrial. Earnings declined substantially in 2020 but are recovering in 2021. We are now modeling 6% average annual growth out to 2026. Long-term growth will be driven by share buybacks, growth in the Aviation segment, increased operational efficiencies, and acquisitions.

The dividend has been stagnant at \$0.08 per share annually since it was cut in 2009 due to the Great Recession. We do not see any inclination from management of raising the payout anytime soon. Management has made it clear that the priority use for cash is acquisitions and buybacks. The company has been aggressively reducing share count.

<sup>1</sup> Share count in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

| Year      | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now  | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 16.8 | 12.8 | 16.4 | 18.0 | 17.1 | 12.6 | 23.2 | 19.4 | 13.2 | 18.0 | 23.7 | 16.0 |
| Avg. Yld. | 0.4% | 0.3% | 0.3% | 0.2% | 0.2% | 0.2% | 0.2% | 0.1% | 0.2% | 0.2% | 0.1% | 0.1% |

Textron's stock price is up since our last report on strength of the recovering Aviation segment. The company's earnings declined in 2020 but 2021 is proving to be better. Our fair value multiple for the long haul remains 16X due to high volatility. The stock is trading well above fair value. We have pegged our 2021 earnings estimate at the mid-point of updated guidance. Our fair value estimate is now \$52. Our 5-year estimate is now \$70.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

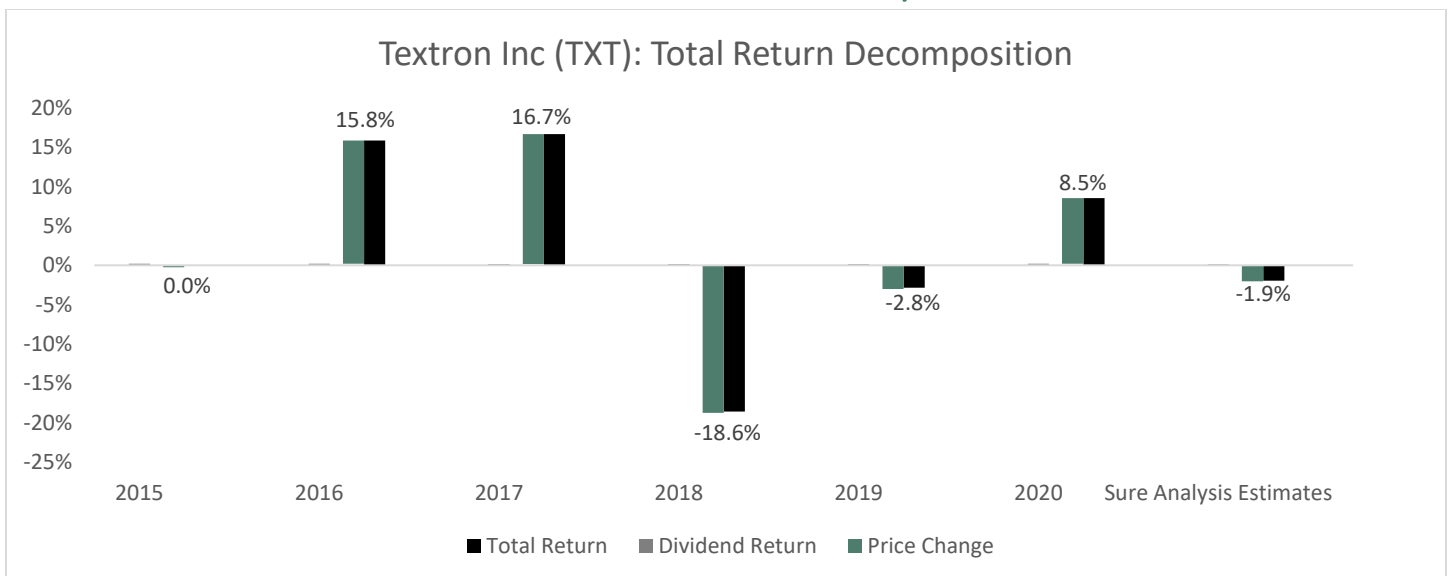
| Year   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 5%   | 3%   | 4%   | 5%   | 3%   | 3%   | 4%   | 2%   | 2%   | 4%   | 2%   | 2%   |

Textron performed poorly during the Great Recession. The company had much lower revenue and the dividend was cut. Much of this was due to losses in the Finance segment and downturns in the Aviation segment's commercial market. Textron also has a history of making acquisitions that do not perform as well as expected. COVID-19 was having a significant impact on Textron's top and bottom lines pointing to the cyclicity of the company's businesses. Textron does have a competitive advantage in its large installed base of commercial and military aircraft and resulting service contracts. That said, the company has much larger competitors in aerospace and defense putting it at a disadvantage when bidding for prime contracts. The balance sheet is conservative. Current long-term debt is \$7M and long-term debt is at \$3,180M offset by \$1,969M in cash and equivalents.

## Final Thoughts & Recommendation

At present we are forecasting a (-1.9%) annualized total return over the next five years. Textron is performing well on the strength of its business jet offerings. However, the withdrawal from Afghanistan will likely negatively impact military sales. Investors may want to look elsewhere. The stock price reflects much of the gains we forecast for the next 5-years. In addition, the stock is volatile, and the yield is miniscule. At the current price, we rate this stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 11275 | 12237 | 12104 | 13878 | 13423 | 13788 | 14198 | 13972 | 13630 | 11651 |
| <b>Gross Profit</b>     | 1967  | 2218  | 1973  | 2457  | 2444  | 2451  | 2371  | 2378  | 2224  | 1557  |
| <b>Gross Margin</b>     | 17.4% | 18.1% | 16.3% | 17.7% | 18.2% | 17.8% | 16.7% | 17.0% | 16.3% | 13.4% |
| <b>SG&amp;A Exp.</b>    | 1195  | 1165  | 1126  | 1361  | 1304  | 1317  | 1334  | 1275  | 1152  | 1045  |
| <b>D&amp;A Exp.</b>     | 403   | 383   | 389   | 459   | 461   | 449   | 447   | 437   | 416   | 391   |
| <b>Operating Profit</b> | 586   | 1053  | 847   | 1096  | 1140  | 1134  | 1037  | 1103  | 1072  | 512   |
| <b>Op. Margin</b>       | 5.2%  | 8.6%  | 7.0%  | 7.9%  | 8.5%  | 8.2%  | 7.3%  | 7.9%  | 7.9%  | 4.4%  |
| <b>Net Profit</b>       | 242   | 589   | 498   | 600   | 697   | 962   | 307   | 1222  | 815   | 309   |
| <b>Net Margin</b>       | 2.1%  | 4.8%  | 4.1%  | 4.3%  | 5.2%  | 7.0%  | 2.2%  | 8.7%  | 6.0%  | 2.7%  |
| <b>Free Cash Flow</b>   | 640   | 447   | 366   | 779   | 670   | 479   | 513   | 738   | 675   | 451   |
| <b>Income Tax</b>       | 95    | 260   | 176   | 248   | 273   | 33    | 456   | 162   | 127   | -27   |

## Balance Sheet Metrics

| Year                          | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Assets</b>           | 13615 | 13615 | 12944 | 14605 | 14708 | 15358 | 15340 | 14264 | 15018 | 15443 |
| <b>Cash &amp; Equivalents</b> | 885   | 885   | 1211  | 822   | 1005  | 1298  | 1262  | 1107  | 1357  | 2254  |
| <b>Acc. Receivable</b>        | 3595  | 3595  | 2472  | 2273  | 2134  | 1999  | 2182  | 1784  | 1603  | 1531  |
| <b>Inventories</b>            | 2402  | 2402  | 2963  | 3928  | 4144  | 4464  | 4150  | 3818  | 4069  | 3513  |
| <b>Goodwill &amp; Int.</b>    | 1635  | 1635  | 1735  | 2027  | 2023  | 2880  | 2364  | 2218  | 2150  | 2157  |
| <b>Total Liabilities</b>      | 10870 | 10870 | 8560  | 10333 | 9744  | 9784  | 9693  | 9072  | 9500  | 9598  |
| <b>Accounts Payable</b>       | 833   | 833   | 1107  | 1014  | 1063  | 1273  | 1205  | 1099  | 1378  | 776   |
| <b>Long-Term Debt</b>         | 4433  | 4433  | 3187  | 3874  | 3610  | 3680  | 3912  | 3784  | 3810  | 4369  |
| <b>Total Equity</b>           | 2745  | 2745  | 4384  | 4272  | 4964  | 5574  | 5647  | 5192  | 5518  | 5845  |
| <b>D/E Ratio</b>              | 1.61  | 1.61  | 0.73  | 0.91  | 0.73  | 0.66  | 0.69  | 0.73  | 0.69  | 0.75  |

## Profitability & Per Share Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 1.7%  | 4.4%  | 3.8%  | 4.4%  | 4.8%  | 6.4%  | 2.0%  | 8.3%  | 5.6%  | 2.0%  |
| <b>Return on Equity</b> | 8.5%  | 20.5% | 13.5% | 13.9% | 15.1% | 18.3% | 5.5%  | 22.5% | 15.2% | 5.4%  |
| <b>ROIC</b>             | 3.0%  | 8.3%  | 6.8%  | 7.6%  | 8.3%  | 10.8% | 3.3%  | 13.2% | 8.9%  | 3.2%  |
| <b>Shares Out.</b>      | 279   | 271   | 282   | 277   | 274   | 270   | 262   | 236   | 228   | 226   |
| <b>Revenue/Share</b>    | 36.70 | 41.53 | 42.56 | 49.25 | 48.16 | 50.62 | 52.83 | 55.17 | 58.57 | 50.88 |
| <b>FCF/Share</b>        | 2.08  | 1.52  | 1.29  | 2.76  | 2.40  | 1.76  | 1.91  | 2.91  | 2.90  | 1.97  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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