Woodward, Inc. (WWD)

Published March 22nd, 2025 by Josh Arnold

Key Metrics

Current Price:	$185	**5 Year CAGR Estimate:**	17.4%	**Market Cap:**	$11.1 B
Fair Value Price:	$211	**5 Year Growth Estimate:**	14.0%	**Ex-Dividend Date:**	05/20/2025[1]
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.6%	**Dividend Payment Date:**	06/06/2025
Dividend Yield:	0.6%	**5 Year Price Target**	$406	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Woodward, Inc. is an aerospace and industrial manufacturer that operates globally. It designs, manufactures, and services control solutions for various OEMs in two segments: Aerospace and Industrial. The Aerospace segment provides fuel pumps, actuators, air valves, fuel nozzles, engine parts, and a variety of other aircraft parts for commercial, private, and military customers. The Industrial segment sells similar kinds of products for industrial gas and steam turbines, compressors, and engines through a network of distributors, as well as direct-to-customer. Woodward was founded in 1870, generates about $3.4 billion in annual revenue, and employs just over 9,000 people globally.

Woodward posted first quarter earnings on February 3rd, 2025, and results were better than expected. The company's revenue was $773 million, down 1.8% year-over-year, but in line with estimates. Adjusted earnings-per-share came to $1.35, which was 17 cents ahead of estimates.

Management noted that Boeing, a major customer, paused deliveries in some product lines. Despite this, high aircraft utilization continued to drive both commercial and defense aftermarket demand. Woodward's burgeoning smart defense product lines continue to drive sales growth in the Aerospace segment. In the Industrial segment, the company continues to see strength in power generation, oil and gas, and marine transportation. These were partially offset by an expected decline in demand in China, and natural gas trucks. Overall, Aerospace sales were up 7% for the quarter, while Industrial sales were down 15%.

Free cash flow amounted to just $1 million, reflecting lower earnings but also reduced capital expenditures. The management team noted it was focused on integrating the Safran acquisition, as well as addressing supply chain issues in aerospace. In addition, the company is focused on boosting margins through operational efficiencies.

Woodward reaffirmed guidance for the year in terms of $5.85 to $6.20 in adjusted earnings-per-share. We've set our estimate at the top end of that range given the company's strong growth rates, focus on efficiency, and cautious stance on supply chain issues and China.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.27	$2.34	$2.45	$2.46	$3.13	$3.10	$2.35	$1.92	$2.87	$4.52	***$6.20***	***$11.94***
DPS	$0.38	$0.43	$0.49	$0.55	$0.63	$0.61	$0.57	$0.73	$0.85	$0.97	***$1.12***	***$1.65***
Shares[2]	63.2	61.6	61.2	61.8	62.0	62.8	63.1	59.8	60.0	59.1	***58***	***55***

Woodward has seen somewhat erratic earnings growth over time, including several years where earnings were roughly flat or lower. We think the company has a very bright future ahead driven by both its aerospace and industrial lines of business. We see 14% adjusted earnings-per-share growth in the years ahead, driven by three factors. We believe we'll see 6% or 7% revenue growth, a small tailwind from share repurchases, and the balance from margin expansion. Industrial segment margins should bottom this year, according to management guidance, and that should help

[1] Estimated date

[2] Share count is 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.

profitability going forward. Woodward continues to invest in automation and general operational improvements, with margin tailwinds being the goal.

A risk to growth is production cuts by OEMs, such as Boeing's 737 MAX pause, which has downstream impacts to suppliers like Woodward. But Woodward's product line is broad and deep and we believe overall, its markets are healthy. Woodward maintains flexibility to meet growth in Aerospace OEM and defense demand. Investors should keep in mind also that high utilization of legacy aircraft means lots of service and replacement parts demand.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.0	26.7	31.7	32.0	34.0	26.4	49.0	41.8	43.7	37.1	***29.8***	***34.0***
Avg. Yld.	0.9%	0.7%	0.6%	0.7%	0.6%	0.7%	0.5%	0.9%	0.7%	0.6%	***0.6%***	***0.4%***

The erratic earnings performance we've seen over time has also caused the valuation to move enormously. The 10-year average P/E ratio is 34, while the most recent five years would be closer to 40. We've set our fair value estimate at the long-term average of 34, which is meaningfully ahead of the current 29.8, implying a strong tailwind going forward. The yield is pretty insignificant at 0.6%, but we see it likely falling further to 0.4% over time despite strong increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	17%	18%	20%	22%	20%	20%	24%	38%	30%	21%	***18%***	***14%***

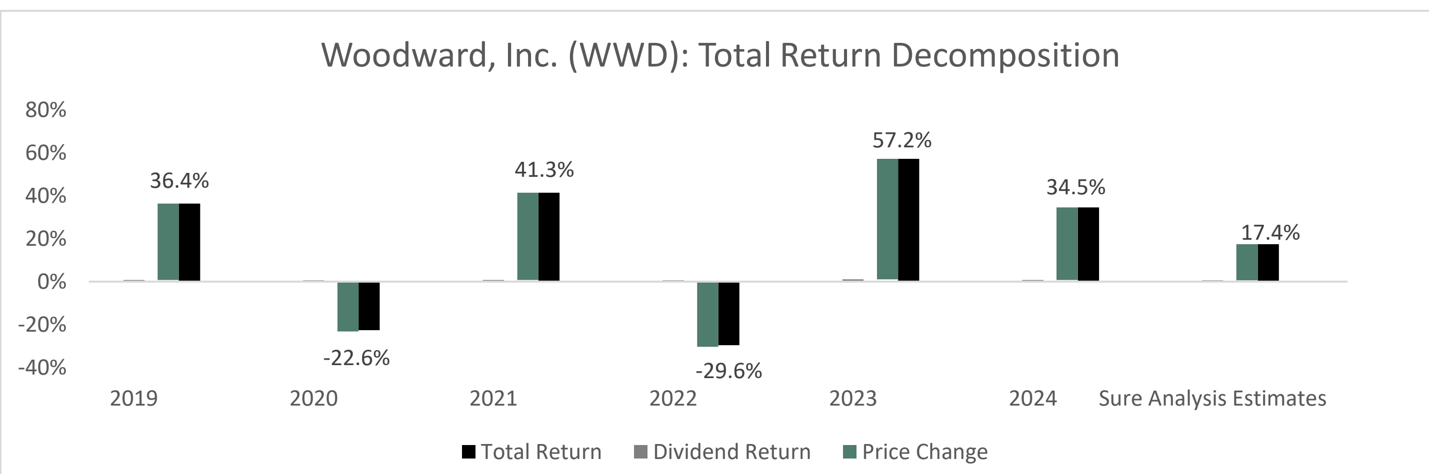
The payout ratio has been maintained generally under 30% of earnings, and we see no risk of a dividend cut anytime soon. We believe the payout ratio should be under 20% for the foreseeable future on strong earnings growth.

Recession risk is significant for Woodward, as those generally bring lower spending on commercial flights. That, in turn, drives lower demand for new aircraft, and lower utilization of existing aircraft that need parts. For now, Woodward is weathering potential headwinds and guidance remains strong for 2025 thus far. But recessions are likely to see Woodward suffer, and something investors should keep a keen eye on.

Final Thoughts & Recommendation

Overall, we think Woodward represents an undervalued, high-growth industrial stock at the moment. The dividend should be very safe, but offers a small yield. We believe Woodward could see average annual returns of 17.4%, mostly attributable to earnings growth and a small valuation tailwind. We start Woodward with a buy rating.

Total Return Breakdown by Year



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.

Woodward, Inc. (WWD)

Published March 22nd, 2025 by Josh Arnold

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2,038	2,023	2,099	2,326	2,900	2,496	2,246	2,383	2,915	3,324
Gross Profit	575	539	571	603	708	640	551	525	678	876
Gross Margin	28.2%	26.6%	27.2%	25.9%	24.4%	25.7%	24.5%	22.0%	23.2%	26.4%
SG&A Exp.	177	174	177	194	211	218	187	203	270	307
D&A Exp.	75	69	81	116	142	131	130	121	120	116
Operating Profit	264	239	267	261	337	289	247	203	276	428
Operating Margin	12.9%	11.8%	12.7%	11.2%	11.6%	11.6%	11.0%	8.5%	9.5%	12.9%
Net Profit	181	181	201	180	260	240	209	172	232	373
Net Margin	8.9%	8.9%	9.6%	7.8%	9.0%	9.6%	9.3%	7.2%	8.0%	11.2%
Free Cash Flow	9	260	215	172	292	302	427	141	232	343
Income Tax	59	46	52	39	61	41	37	28	43	81

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,512	2,642	2,757	3,791	3,957	3,903	4,091	3,806	4,010	4,369
Cash & Equivalents	82	81	88	80	98	150	447	108	137	282
Accounts Receivable	326	341	368	423	382	356	322	369	485	457
Inventories	448	462	474	550	517	438	420	514	518	609
Goodwill & Int. Ass.	782	753	728	1,514	1,410	1,415	1,365	1,233	1,244	1,247
Total Liabilities	1,359	1,430	1,386	2,253	2,230	1,911	1,876	1,905	1,939	2,192
Accounts Payable	173	169	233	226	240	134	171	231	234	287
Long-Term Debt	851	727	613	1,246	1,085	838	735	777	722	872
Shareholder’s Equity	1,153	1,213	1,371	1,538	1,727	1,993	2,215	1,901	2,071	2,176
LTD/E Ratio	0.74	0.60	0.45	0.81	0.63	0.42	0.33	0.41	0.35	0.40

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.4%	7.0%	7.4%	5.5%	6.7%	6.1%	5.2%	4.3%	5.9%	8.9%
Return on Equity	15.7%	15.3%	15.5%	12.4%	15.9%	12.9%	9.9%	8.3%	11.7%	17.6%
ROIC	9.4%	9.2%	10.2%	7.6%	9.3%	8.5%	7.2%	6.1%	8.5%	12.8%
Shares Out.	63.2	61.6	61.2	61.8	62.0	62.8	63.1	59.8	60.0	59.1
Revenue/Share	30.86	31.83	33.04	36.41	44.97	38.87	34.26	37.67	47.41	53.54
FCF/Share	0.14	4.09	3.39	2.70	4.52	4.71	6.51	2.23	3.77	5.52

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