

Textron

Adj EPS beat, 2024 EPS outlook ahead of consensus

Maintain Rating: NEUTRAL | PO: 85.00 USD | Price: 79.33 USD

Adj EPS above Street Consensus estimates (STe)

Textron (NYSE: TXT) reported 4Q23 adj EPS of \$1.60 (vs STe 1.53) excluding special charges, LIFO provision, and intangible asset amortization. The previously [announced restructuring plan](#) (see note) is expected to be largely completed in 1H24, with \$75mn in annualized cost savings expected. Aviation were sales down \$58mn Y/Y on lower volume (50 jets vs 52 in 4Q22, 44 turboprops vs 47 in 4Q22) and mix, offset by some higher pricing. Aviation profits were up \$23mn Y/Y largely on pricing (12.7% vs STe 13.2%). Bell sales were up \$255mn on more commercial deliveries (91 vs 71 in 4Q22) and more military sales (FLRAA) with profits up \$55mn Y/Y on volume and mix (11% vs STe 9.23%). Systems revenue was largely flat Y/Y as were segment profits (11.1% vs STe 11.48%). Industrial sales were up \$54mn Y/Y on higher volumes, mix, and favorable impact from Specialized Vehicles pricing. Industrial profits were up \$14mn Y/Y on higher pricing (5.9% vs STe 5.98%). eAviation saw sales of \$10mn and \$23mn segment loss.

2024 outlook: EPS above STe, revenue below STe

TXT provided its 2024 outlook of \$14.6bn in revenue (vs STe \$14.7bn), \$6.20-6.40 in adjusted EPS (vs STe \$5.92), and cash from operations (before pension contributions) of \$0.9-1.0bn (consistent with last year). TXT expects to make \$50mn in planned pension contributions. Across the segments: outlook is as follows: Aviation sales of ~\$6.0bn and ~12.0-13.0% margins, Bell sales of ~\$3.5bn and ~9.5-10.5% margins, Systems sales of \$1.25bn and ~11.0-12.0% margins, Industrial sales of ~\$3.8bn and ~6.0-7.0% margins, eAviation sales of \$50mn and \$75mn loss, Finance revenue of ~\$45mn and \$30mn profit. Segment sales outlook indicated sales growth across all manufacturing segments except Industrial. Margin ranges, while wide, reflect margin expansion at industrial and possibly Aviation and Bell, while flat at Systems. We expect the results to be well received by the market and maintain our Neutral rating.

Exhibit 1: TXT 4Q23 variance analysis

Quick take of results vs expectations

Quick-take of results vs Expectations:

EPS	4Q23 Actual: \$1.60 vs BBG: \$1.53 vs 4Q22: \$1.23 (4Q23 up 30.1% Y/Y)
Revenue	4Q23 Actual: \$3,892mn vs BBG: \$3,941mn vs 4Q22: \$3,636mn (4Q23 up 7.0% Y/Y)
Operating Margin	4Q23 Actual: 6.2% vs 4Q22: 7.6%
Revenue by segment	Total Bell & Textron Systems: 4Q23 Actual: \$1,385mn vs 4Q22: \$1,130mn. Total manufacturing: 4Q23 Actual: \$3,880mn vs 4Q22: \$3,625mn. Finance: 4Q23 Actual: \$12mn vs 4Q22: \$11mn
Backlog	\$13.3bn
Adj. EPS outlook	FY24: \$6.20-\$6.40

Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

24 January 2024

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Stock Data

Price	79.33 USD
Price Objective	85.00 USD
Date Established	15-Aug-2023
Investment Opinion	B-2-7
52-Week Range	61.27 USD - 81.59 USD
Mrkt Val (mn) / Shares Out (mn)	18,196 USD / 229.4
Free Float	99.4%
Average Daily Value (mn)	87.11 USD
BofA Ticker / Exchange	TXT / NYS
Bloomberg / Reuters	TXT US / TXT.N
ROE (2023E)	14.8%
Net Dbt to Eqty (Dec-2022A)	21.4%
ESGMeter™	Medium

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Price objective basis & risk

Textron (TXT)

Our \$85 PO is based on a relative P/E multiple of 0.85x the market multiple on 2023e. This relative multiple reflects how TXT has traded on average through historic cycles vs. the broader market since 1995.

Upside risks to our PO are: Faster than expected recovery of business jets at Cessna. Higher than expected growth for US Defense related sales. A recovery in oil and gas end-market for helicopters. Better than expected US auto vol. at Kautex business unit. High operating leverage could unlock upside to earnings if sales recover.

Downside risks to our PO are: Bell faces declining V-22 production rates which will be a headwind to revenues and negatively impact segment margins. The recovery in the bizjet market does not last, credit availability shrinks and Cessna is hurt by potential new entrants. Serious complications could arise from the new aircraft development platforms. Bell and/or Cessna could experience supply chain constraints that could materially affect production rates. Given that business jets are priced in dollars, an unexpected rapid revaluation in the dollar could significantly affect order activity.

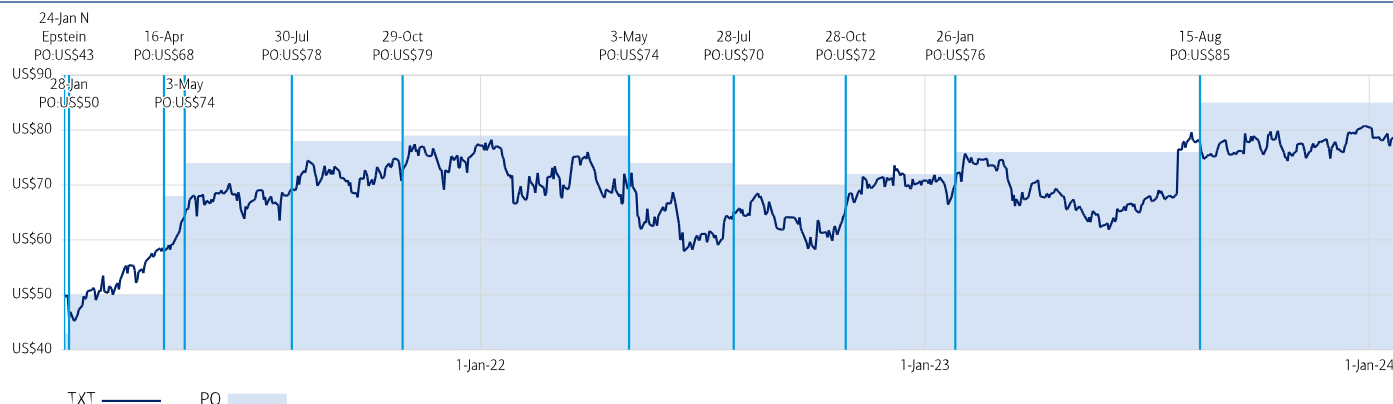
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Textron (TXT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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