

## Textron

# Strong revenue ramp and buyback optionality underappreciated

Rating Change: BUY | PO: 105.00 USD | Price: 90.32 USD

## Undervalued + bizjet demand, buybacks, strong Bell sales

Textron (NYSE: TXT) has been one of our better performing large caps YTD, up 12.31% (vs. S&P 500 +8.17%). However, concerns around Industrials, falling bizjet demand, and poor defense sentiment have peaked, translating into a multiple that is roughly one standard deviation below the historical average (see Exhibit 1). In our view, we find this surprising on account of 1) continued bizjet demand and robust backlog, 2) a strong balance sheet that sets the scene for another strong year of buybacks, and 3) strong Bell sales on the Future Long Range Attack Aircraft (FLRAA) program ramp.

## Upgrade to Buy rating with \$105 PO

We raise our PO to \$105 from \$85 and upgrade to a Buy rating. We roll our valuation to 2025 estimates and arrive at our PO by using a 0.90x relative P/E multiple (vs. prior 0.85x) to the 2025e market multiple. Our higher multiple accounts for 1) stronger Aviation performance despite the post-COVID demand decline, 2) efforts to consolidate costs at Industrial, and 3) a robust Systems pipeline that should materialize in stronger outyear growth. Nevertheless, our relative multiple remains below the historical average of 0.95x as we see risks to Bell given its aging portfolio and possible budgetary cuts to the Future Vertical Lift (FVL) program ([see recent report on V-22 and FVL implications](#)).

## Aviation still soaring on robust backlog converting to sales

On the bizjet side, the 2024 outlook provided indicates still strong Aviation volumes (+11.7% Y/Y implied, above prior BofAe +11.0%). Additionally, TXT finished the year with a collective BTB of 1.15x, well ahead of its 2023 target of 1.0x. Despite concerns of waning bizjet demand, TXT, along with other bizjet OEMs (i.e., GD), continue to see strong demand through the 2020s. As deliveries ramp, book-to-bill across the OEMs could fall below 1.0x in 2024 ([NBAA recap](#)). Nevertheless, fundamental conditions remain strong, and demand and utilization remain above historical norms ([3Q23 bizjet update](#)). TXT is once again targeting 1.0x BTB for 2024. Even if it comes short of this, near term revenues are buffered by an already robust backlog. We now expect 2024 revenue growth of 13.6% Y/Y.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.45	5.59	6.25	6.65	7.45
GAAP EPS	4.01	4.57	5.62	6.59	7.40
EPS Change (YoY)	NA	25.6%	11.8%	6.4%	12.0%
Consensus EPS (Bloomberg)			6.30	6.90	7.48
DPS	0.08	0.08	0.08	0.08	0.08
Valuation (Dec)					
P/E	20.3x	16.2x	14.5x	13.6x	12.1x
GAAP P/E	22.5x	19.8x	16.1x	13.7x	12.2x
Dividend Yield	0.1%	0.1%	0.1%	0.1%	0.1%
EV / EBITDA*	16.2x	15.8x	13.5x	12.3x	11.7x
Free Cash Flow Yield*	5.5%	4.2%	4.7%	5.9%	6.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

08 March 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	85.00	105.00
2024E Rev (m)	14,918.2	14,827.1
2025E Rev (m)	15,684.8	15,391.1
2026E Rev (m)	16,423.0	16,173.3
2024E EPS	5.55	6.25
2025E EPS	6.45	6.65
2026E EPS	7.20	7.45

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### Stock Data

Price	90.32 USD
Price Objective	105.00 USD
Date Established	8-Mar-2024
Investment Opinion	B-1-7
52-Week Range	61.27 USD - 91.28 USD
Mkt Val (mn) / Shares Out (mn)	20,716 USD / 229.4
Free Float	99.4%
Average Daily Value (mn)	111.08 USD
BoFA Ticker / Exchange	TXT / NYS
Bloomberg / Reuters	TXT US / TXT.N
ROE (2024E)	17.0%
Net Dbt to Eqty (Dec-2023A)	24.1%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BoFA ESGMeter Methodology](#)".

Bizjet – business jet

BTB – book-to-bill

NBAA – National Business Aviation Association

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Timestamp: 08 March 2024 06:00AM EST

# iQprofile<sup>SM</sup> Textron

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.5%	7.7%	8.9%	9.8%	10.3%
Return on Equity	13.7%	16.0%	17.0%	16.9%	17.5%
Operating Margin	6.9%	8.4%	9.3%	10.0%	10.2%
Free Cash Flow	1,136	865	969	1,232	1,283

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	1.1x	1.2x	1.4x	1.3x
Asset Replacement Ratio	0.9x	1.0x	1.0x	0.9x	0.9x
Tax Rate	15.1%	15.2%	17.5%	17.5%	17.5%
Net Debt-to-Equity Ratio	21.4%	24.1%	24.6%	20.9%	16.6%
Interest Cover	11.8x	18.5x	15.7x	17.1x	18.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,869	13,683	14,827	15,391	16,173
% Change	3.9%	6.3%	8.4%	3.8%	5.1%
Gross Profit	2,069	2,285	2,476	2,570	2,701
% Change	-0.8%	10.4%	8.4%	3.8%	5.1%
EBITDA	1,509	1,544	1,815	1,980	2,094
% Change	10.1%	2.3%	17.6%	9.1%	5.8%
Net Interest & Other Income	(94)	(62)	(88)	(90)	(90)
<b>Net Income (Adjusted)</b>	<b>957</b>	<b>1,128</b>	<b>1,192</b>	<b>1,206</b>	<b>1,290</b>
<b>% Change</b>	<b>NA</b>	<b>17.9%</b>	<b>5.7%</b>	<b>1.2%</b>	<b>6.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	862	922	1,070	1,196	1,281
Depreciation & Amortization	397	395	431	441	451
Change in Working Capital	154	(359)	(23)	(6)	(8)
Deferred Taxation Charge	(220)	(390)	0	0	0
Other Adjustments, Net	297	699	(80)	1	(38)
Capital Expenditure	(354)	(402)	(429)	(399)	(403)
<b>Free Cash Flow</b>	<b>1,136</b>	<b>865</b>	<b>969</b>	<b>1,232</b>	<b>1,283</b>
<b>% Change</b>	<b>-7.1%</b>	<b>-23.9%</b>	<b>12.0%</b>	<b>27.2%</b>	<b>4.1%</b>
Share / Issue Repurchase	(823)	(1,168)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	(17)	(16)	(15)	(15)	(14)
Change in Debt	(14)	348	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,035	2,181	2,135	2,352	2,621
Trade Receivables	855	868	1,238	1,285	1,350
Other Current Assets	4,583	4,771	4,729	4,470	4,513
Property, Plant & Equipment	2,523	2,477	2,512	2,505	2,491
Other Non-Current Assets	6,297	6,559	6,505	6,459	6,413
<b>Total Assets</b>	<b>16,293</b>	<b>16,856</b>	<b>17,118</b>	<b>17,071</b>	<b>17,388</b>
Short-Term Debt	7	357	357	357	357
Other Current Liabilities	3,663	4,021	4,231	4,007	4,058
Long-Term Debt	3,550	3,508	3,508	3,508	3,508
Other Non-Current Liabilities	1,960	1,983	1,981	1,977	1,976
<b>Total Liabilities</b>	<b>9,180</b>	<b>9,869</b>	<b>10,076</b>	<b>9,849</b>	<b>9,899</b>
<b>Total Equity</b>	<b>7,113</b>	<b>6,987</b>	<b>7,042</b>	<b>7,223</b>	<b>7,490</b>
<b>Total Equity &amp; Liabilities</b>	<b>16,293</b>	<b>16,856</b>	<b>17,118</b>	<b>17,071</b>	<b>17,388</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Aerospace

## Company Description

Textron Inc. is an industrial conglomerate, including the following operating segments (1) Textron Aviation manufacturing light-to-medium-sized business aircraft (2) Bell Helicopter, (3) Textron Systems manufacturing military UAVs, marine and land systems, simulation and training and aviation mission support products, (4) Industrial manufacturing machinery and equipment for golf/turf, wire and cable installation systems, plastic fuel tanks, pumps, gears, and gearboxes and (5) Textron Financial.

## Investment Rationale

Textron Aviation is well positioned to benefit from continued growth in business jet demand and growing industry backlogs. Bell is positioned to benefit from improving commercial helicopter demand, and the Future Long Range Assault-Aircraft program development. Textron Systems is positioned to benefit from increasing domestic and international defense budgets. Textron's strong balance sheet sets the scene for continued shareholder friendly capital deployment through dividends and share buybacks.

## Stock Data

Average Daily Volume	1,229,864
VOLUME_AVG_3M	1165665

## Quarterly Earnings Estimates

	2023	2024
Q1	1.05A	1.38E
Q2	1.46A	1.47E
Q3	1.49A	1.47E
Q4	1.60A	1.92E

## Strong BS laying groundwork for another more buybacks

On capital deployment, TXT plans on prioritizing share repurchases through 2024. This comes off a strong 2023 in which the company repurchased \$1.2bn worth of stock. With an expected average share count of 191mn for 2024, this indicates TXT expects nearly \$1bn worth of buybacks in 2024, which we reflect in our model. Given a robust balance sheet and currently depressed multiple, we think this approach will be well-received by investors.

## Industrial: restructure & rightsizing

### Reducing cost structure by consolidating footprint

While the Industrials segment appears to be outlier from a strategic perspective and remains underappreciated by the market, we think TXT is taking the right steps to make the business leaner and unlock underlying value. In November 2023, TXT announced a restructuring plan that reduced headcount at the Specialized Vehicle and Kautex units ([see Nov. restructuring report](#)). TXT anticipates that the measures will lead to impairment charges related to fixed and intangible assets on the powersports product line (Specialized Vehicles) and fixed assets at Kautex. We continue to view these measures favorably as management drives out further cost, which should support margins despite falling demand and sunseting programs.

## Bell: FLRAA ramp strong for revenues, drag on margins

We have our concerns regarding the Bell business unit as budget worries swell around Army Aviation and the commercial helicopter market historical proves difficult to forecast accurately. Recent headcount reductions targeting the H-1 and V-22 programs highlight that Bell may not have much other new program work in the pipeline aside from the Future Long Range Attack Aircraft (FLRAA) program.

### FLRAA to sustain revenues in the medium term

That said, however, the recent reset of Army Aviation left the FLRAA program untouched. In the medium term, continued investment in FLRAA by the Army is a positive for Bell. The Army appears now to be focusing on a high-low approach to aviation with the future fleet consisting of upgraded Blackhawks and FLRAA. Bell could find itself in serious trouble if the FLRAA budget were to be cut or outright cancelled at some point in the future, but we don't see that as probable in the near to medium term. FLRAA should support stronger near-term revenues, with TXT expecting the program to contribute ~\$900mn in sales in 2024.

## Systems: “wait-and-see” year, no large awards until 2025

At Textron Systems, 2024 is largely a “wait-and-see” year, as no large awards or downselections are slated until 2025. As we highlighted in our [AUSA 2023 takeaways](#), Textron Systems continues to aim at four main target contracts:

1. **Optionally Manned Fighting Vehicle (OMFV or XM30)** – TXT is supporting Team Lynx alongside teammates RTX, LHX, Allison Transmission, and Anduril Industries. Selection and prototyping is slated for 2025, with full scale production to commence in 2Q30 ([see our XM30 update report](#)).
2. **Future Tactical Unmanned Aircraft System (FTUAS)** – In September 2023, Textron and Griffon Aerospace were downselected to provide prototypes for phase two of the FTUAS Increment 2 program. TXT is the incumbent, as FTUAS Increment 2 is intended to replace the aging and troublesome RQ-7B Shadow. This is the second of five development phases through 2025, after which a single vendor will enter full-rate production.
3. **Robotic Combat Vehicle (RCV)** – Textron was one of four companies selected to design and assemble two prototypes by August 2024. The downselect marks Phase 1 of a multi-phase program of record competition utilizing the Ground Vehicle Systems (GVS) Other Transaction Agreement (OTA). A single vendor is expected to



be selected in 1QFY25. The US Army has pledged to expedite several top priority programs, including FTUAS and RCV.

4. **Advanced Reconnaissance Vehicle (ARV)** – Textron “Cottonmouth” ARV prototype was downselected by the US Marine Corps in July 2021 alongside General Dynamics’s design. In February 2023, the Marines announced that they were also evaluating a BAE Systems prototype based on its Amphibious Combat Vehicle (ACV). The Marines plan to release a request for proposal (RFP) later in FY24 and select a vendor at some point in FY25.

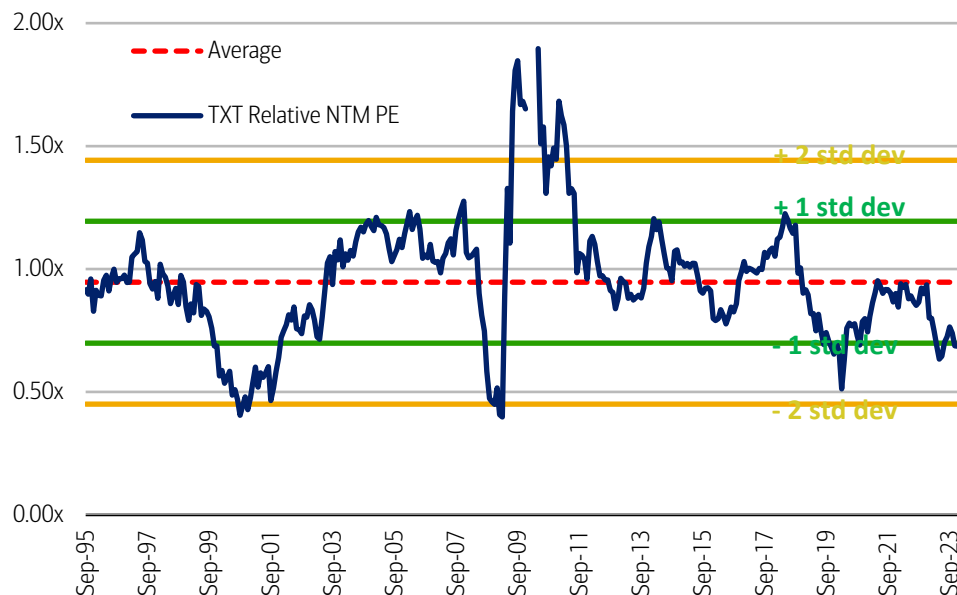
## Raising PO on higher P/E multiple

We raise our PO to \$105 from \$85 and upgrade to a Buy rating. We roll our valuation to 2025 estimates and arrive at our PO by using a 0.90x relative multiple (vs. prior 0.85x) to the 2025e market multiple. Our higher multiple accounts for 1) stronger Aviation performance despite the post-COVID demand comedown, 2) efforts to consolidate cost at Industrial, and 3) a robust Systems pipeline that should materialize in stronger outyear growth. Nevertheless, our relative multiple remains below the historical average of 0.95x as we see risks to Bell given its aging portfolio and possible budgetary cuts to FVL program. Additionally, this valuation translates into a PO that is between our base and bull scenarios for TXT on a SOTP basis.

We raise our EPS estimates on lower corporate expenses and share count on more share repurchases. We now expect EPS of \$6.25 (vs. prior \$5.55) in 2024, \$6.65 (vs. prior \$6.45) in 2025, and \$7.45 (vs. prior \$7.20) in 2026.

### Exhibit 1: TXT next twelve-month P/E multiple relative to S&P 500

On average, TXT has historically traded 0.95x the market multiple on a P/E basis, roughly one standard deviation above current levels (0.69x)



Source: BofA Global Research, FactSet

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Textron (TXT)

Our \$105 PO is based on a relative P/E multiple of 0.9x the S&P 500 on 2025e. This relative multiple is slightly below where TXT has traded on average through historic cycles vs. the broader market since 1995, reflecting risks to Bell given its aging portfolio and possible budgetary cuts to FVL program. .

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.

## Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
<b>NEUTRAL</b>				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein



**US - Aerospace and Defense Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
<b>UNDERPERFORM</b>				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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# Disclosures

## Important Disclosures

Textron (TXT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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