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Textron Inc. (TXT) CEO Scott Donnelly on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-17-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.95 beats by $0.09 | Revenue of $3.26B (1.84% Y/Y) misses by $-50.79M

Earning Call Audio

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Textron Inc. (NYSE:TXT) Q3 2019 Earnings Conference Call October 17, 2019 8:00 AM ET

Company Participants

Eric Salander - Vice President of Investor Relations

Scott Donnelly - Chairman and CEO

Frank Connor - Chief Financial Officer

Conference Call Participants

Sheila Kah - Jefferies

Cai von Rumohr - Cowen and Company

Seth Seifman - JPMorgan

Peter Arment - Baird

Pete Skibitski - Alembic Global

George Shapiro - Shapiro Research

Rajeev Lalwani - Morgan Stanley

David Strauss - Barclays

Jon Raviv - Citi

Robert Spingarn - Credit Suisse

Noah Poponak - Goldman Sachs

Caitlin Dullanty - Bank of America

Robert Stallard - Vertical Research

Carter Copeland - Melius Research

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Textron Third Quarter Earnings Conference Call. And at this time, all participants are in a listen only mode. Later, we will conduct a question-and-answer session [Operator Instructions]. And as a reminder, today's conference is being recorded.

I will now turn the conference over to your host, Vice President at Investor Relations, Mr. Eric Salander. Please go ahead.

Eric Salander

Thanks, Gregg, and good morning, everyone. Before we begin, I'd like to mention, we will be discussing future estimates and expectations during our call today. These forward-looking statements are subject to various risk factors, which are detailed in our SEC filings and also in today's press release.

On the call today, we have Scott Donnelly, Textron's Chairman and CEO, and Frank Connor, our Chief Financial Officer. Our earnings call presentation can be found in the Investor Relations section of our Web site.

Textron's revenues in the quarter were $3.3 billion, up $59 million from last year's third quarter. Net income in the third quarter was $0.95 per share, compared to $0.61 per share of adjusted net income in the prior year. Manufacturing cash flow before pension contributions totaled $181 million, compared to $259 million in last year's third quarter.

With that, I'll turn the call over to Scott.

Scott Donnelly

Thanks Eric, and good morning, everybody. Revenues were up in the quarter primarily driven by Textron Aviation and Industrial. Segment profit margin was up 140 basis points as we continue to see strong execution across our businesses. Bell revenues were up in the quarter largely due to commercial deliveries of our 407 and 429 aircraft. Year-to-date orders of these models are ahead of last year's rate and we look forward to continue higher deliveries of these popular platforms as we continue to ramp production to align with customer demand.

In the quarter, our Bell 407 GXI received IFR certification from the FAA. Bell has proposed the new 407 GXI as its entry from the Navy's advance advanced helicopter training systems program where an award decision is expected later this year.

Moving to the military side. The Czech Republic announced their intent to acquire our mixed fleet of eight Bill UH-1Y utility and four Bell AH1- Z attack helicopters as part of a total transaction estimated at $620 million. This is one of several foreign military opportunities for the AH-1 platform that we're continuing to pursue.

Within the future vertical lift, we recently unveiled a full-scale model of the new Bell 360 Invictus Rotorcraft, our entrant in the future attack reconnaissance aircraft program at the US Army's AUSA annual meeting. The Bell 360 Invictus combines new technologies validated on our 525 commercial helicopters with unique characteristics to deliver the US Army an affordable, agile and lethal solution to win on the more modern battlefield.

At systems revenues were down on lower armored vehicle deliveries at Textron marine land systems. In a quarter Textron systems was among three companies down selected by the US Army to deliver prototypes for the next phase of the next-generation squad weapon program. Also in the quarter, our ship-to-shore connector craft 100 successfully completed builders' trials will now be followed by Navy acceptance trials.

Within unmanned, our fee for service product line captured over $50 million of new wins in the quarter for the Aerosonde platform. Earlier this week at AUSA, we unveiled the Ripsaw M5 as Textron systems offered to the US Army's robotic combat vehicle program.

Moving to industrial, revenues were higher primarily reflecting improved pricing at Textron specialized vehicles. Specialized vehicles, we saw continued favorable performance from a cost reduction and manufacturing realignment actions we initiated in the fourth quarter of last year. Also in the quarter, we continue to onboard Bass Pro and Capella stores as well independent track marine dealers and have seen steady retail volume growth through this channel.

Moving to Textron aviation, revenues were up from hired jet and aftermarket volumes, partially offset by lower defense volume. In the quarter, we delivered 45 jets, up from 41 last year and 39 commercial turboprops down from 43 last year. Looking at commercial turboprops, we saw a pickup and order activity sequentially as well as compared to the third quarter of last year. In late September, we received FAA certification of the all-new Citation Longitude and began customer deliveries in the first week of October.

We're really excited to have this innovative aircraft in the hands of our customers and expect this platform to drive revenue growth and margin expansion in the future. Overall, aviation had a solid quarter with mid-single digit revenue growth.

Coming into the year, we had planned for higher growth in our legacy jet models with commercial turboprops about flat. Year-to-date, legacy jet volume is running ahead of last year with 135 deliveries compared to 125 with commercial turboprops tracking to plan. As it will occur in the remainder of the year and in light of some uncertainty in the marketplace, we're adjusting our outlook for legacy aircraft sales and now expect Q4 deliveries excluding longitude to be about flat with last year. With respect to longitude, we started customer deliveries and expect to continue those through the current quarter. Although, we've seen some deliveries pushing next year to allow for require aircraft modifications related a certification that was granted at the very end of the quarter.

We've also experienced some delays in defense order activity and volume compared to original plan, all of which have been reflected in our revised full-year guidance for 2019. With that, I'll turn the call over to Frank.

Frank Connor

Thank you, Scott. And good morning, everyone. Segment profit in the quarter was $297 million, up $52 million from the third quarter of 2018, with segment profit margin of 9.1%, up 140 basis points from a year ago.

Let's review how each of the segments contributed starting with Textron Aviation. Revenues at Textron Aviation of $1.2 billion were up $68 million from last year's third quarter, primarily due to higher jet and aftermarket volumes, partially offset by lower defense volume. Segment profit was $104 million in the third quarter, $5 million from a year ago due to the higher volume and mix and favorable performance, partially offset by higher net inflation.

Textron Aviation backlog at the end of the third quarter was $1.9 billion. Bell revenues were $783 million, up $13 million from last year on higher commercial revenues, partially offset by lower military volume. Bell delivered 42 commercial helicopters in the quarter compared to 43 last year. The segment profit of $110 million was down $3 million from a year ago, primarily due to an unfavorable impact from performance which included lower net favorable program adjustments, partially offset by higher volume and mix. Bell backlog at the end of the third quarter was $5.6 billion.

Revenues at Textron Systems were $311 million, down $41 million from last year, primarily reflecting lower armored vehicle volume at Textron Marine & Land Systems. Segment profit of $31 million was up $2 million from last year's third quarter. Textron Systems backlog at the end of the third quarter was $1.4 billion.

Industrial revenues of $950 increased $20 million from a year ago, largely related to a favorable impact from pricing within the Textron specialized vehicles product line. Segment profit was $46 million from the third quarter of 2018, largely due to favorable performance and a favorable impact from net pricing primarily related to the specialized vehicle product line. Finance segment revenues were down $1 million and profit was up $2 million from last year's third quarter.

Moving below segment profit, corporate expenses were $17 million and interest expense was $39 million in the quarter. We also repurchased 2.3 million shares at an overall cost of $109 million. Year-to-date, we have repurchased 9.3 million shares returning $470 million in cash to shareholders.

To wrap up with guidance, we are narrowing our expected full-year earnings per share to a range of $3.70 and $3.80. This includes revised tax guidance and an effective rate of 17% for the full year. We are revising our outlook for manufacturing tax flow before pension contributions to a range of $600 million to $700 million largely reflecting higher ending inventories at Textron Aviation. That concludes our prepared remarks. Gregg, we can open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Your first question comes from the line of Sheila Kah from Jefferies. Please go ahead.

SheilaKah

Hi. Good morning and thank you for the time. I wanted to talk about how tax and your decision to put out strategic alternatives for the business. You've talked about not selling it for as long as I've known you. Kind of what's changed and what are you thinking about them here?

ScottDonnelly

FrankConnor

Well, Sheila, I there's obviously we get a fair bit of feedback from investors as to the fit of a tier 1 automotive business in a company that is otherwise kind of an end market product, highly engineered sort of a business. And we've been paying attention to that. We think that we do a pretty good analysis every year to make sure that nothing in portfolio is holding back our stock from some of the per se standpoint. And we've obviously seen a disconnect in that over the last year or so. And given that and the feedback that we get we thought it was appropriate to at least explore what it would look like and what alternatives there might be for Kautex. And so that's why we announced that we were launching that process.

SheilaKah

Got it. Thank you. And then, Frank, on just a free cash flow, working capital has been in hindrance here. Kind of how do we think about that ramp? How much is pushed out given the longitudes and working capital into 2020?

FrankConnor

Yes. Again, we're going to see we think some higher inventory levels at Aviation given kind of the outlook on the legacy models as Scott discussed and a little bit of longitude, the $100 million reflects that working capital growth will liquidate a lot of inventory here in the fourth quarter. But we think some will get pushed into early next year.

ScottDonnelly

So, Sheila, there's several pieces of that as Frank said, we will have a few longitudes just the mods of the aircraft which are trivial from a technical and production standpoint. But are kind of invasive and we're rolling each aircraft through that based on these last-minute changes, means a few aircraft that we've had in our plan will probably move into next year. They'll still be a bunch of longitude deliveries in the quarter obviously. We have a military customer for whom we built T6s that originally was planned to take delivery this year has asked to take that delivery next year, which again that's fine but it does put some obviously some inventory. And as we've said all year, if we see any softness we're going to align and trade volume versus having to drive price to get there.

So with sort of the dynamic we're seeing in the marketplace, we'd rather back off on that number and obviously there's some penalty to us and carrying some of the inventory in the next year. But I'd rather do that than try to push more volume into a market if it's if it shows any signs of softness.

Operator

Your next question comes from the line of Cai von Rumohr from Textron. Please go ahead.

CaivonRumohr

Thank you. I didn't know I joined --

ScottDonnelly

Welcome to board, Kai.

CaivonRumohr

Yes. So to follow up on Sheila's question, if you sell Kautex it looks like it's quite dilutive and then if you're going to look at selling that part of industrial wouldn't you also sell the more troubled part specialty vehicle, so ultimately I think the question becomes, Scott, what is Textron going to be in three to five years?

ScottDonnelly

Well, Cai, obviously, we haven't made had any commentary on the vehicle business. As you know, the vehicle business historically for us has been a good business. It had good growth. It generates good margins and cash. I think obviously we went through some issues last year, which we've been working harder to get turned back around. I think it's heading absolutely in the right direction. And in a business that has a lot of potential for us in terms of growth and strong performance. And it is like the rest of our businesses one where product matters, investing and having a better product than the other guy is how you win in the market. And those are the kind of businesses we like.

CaivonRumohr

Got it. Thank you. And then so, Frank, if we look at Industrial, the margins looked like they were weaker than I thought and you keep on talking about the better pricing in specialty vehicles. Was Kautex down significantly?

FrankConnor

No. Kautex was fine. I mean, we -- this is the pricing obviously was relative to the third quarter of last year which was a really tough quarter at GSP. And so we made considerable progress in terms of kind of no longer discounting in the marketplace and having a more appropriate distribution strategy and pricing. Therefore pricing strategy but Kautex perform well, Kautex was kind of flat at the revenue line. And saw better kind of margins year-over-year.

Operator

Your next question comes from the line of Seth Seifman from JPMorgan. Please go ahead.

SethSeifman

Thanks very much and good morning. Scott, I just wanted to follow-up on some of the weakness that you mentioned in the business jet end market. I think the commentary made suggest that excluding longitude deliveries will be down about 10 units year-on-year in the fourth quarter. And is there a particular set of models that's affecting more a particular geographical area or customer set that's driving that?

ScottDonnelly

So, Seth, on the fourth quarter we would expect again ex longitude to be fairly flat from 2018. So we're not expecting it to be down but the market knobs you order activity has been obviously there's sort of an implied book-to-bill Bill here about one in Q3. So it's not horrible market, but I mean we do see some softness as we saw sort of in the latter part of Q2. We saw again the latter part of Q3 just uncertainty in the Indian market and some customers who have been in discussions and clearly intend to buy new aircraft, debating do I do it now, do I wait.

And again I think we would rather take prudent action and not go out and try to use price to incentivize those transactions to happen. They're going to move in the next year then they move in the next year. But there's no reason after all the work we've done to try to get pricing back to a healthy level that we should compromise that. But, yes, it's-- I think we're talking about a flat market on in terms of legacy deliveries not one that's down. We're up, we're 10 units on non longitude so far year-to-date. So that's where we're comparing right, it's not that we're giving those 10 back. We just expected to be flat on a quarter-over-quarter basis, year-over-year basis, I'm sorry.

SethSeifman

Okay. So year-on-year then you'll be up 10? You're up 10 year-to-date and if you are flat, okay--

ScottDonnelly

Yes. That's right. Now sorry for the confusion. It's not down, it's a flat on a year-over-year basis on a quarter.

SethSeifman

In the fourth quarter?

ScottDonnelly

Correct.

SethSeifman

Okay. Great. Thanks. And then just as a quick follow-up in terms of thinking about Kautex proceeds that come in. There's obviously potential do share buyback. There's also I think about a $1 billion a debt coming due in the next two years. So how do you think about those proceeds in light of the --also in light of whatever target leverage level you have?

ScottDonnelly

Well, look, I think our balance sheet while it's somewhat under levered at this point, we'll have to make a decision at that point how much you think is appropriate on the share buyback. And then obviously some debt retirement would go in line with that.

Operator

Your next question comes from the line of Peter Arment from Baird. Please go ahead.

PeterArment

Yes. Thanks. Good morning, Scott, Frank. Hey, Scott, just to follow up I guess on Seth's question lastly on Kautex. Can you maybe just provide a little color? Is there since you've made the announcement have you seen interest in what historically has been a very good business for you?

ScottDonnelly

Look, I -- we can't give a whole lot of commentary. I mean, obviously, the process is fairly early on. Goldman has been running that process for us. There's been a lot of NDA's. There have been a lot of management meetings with prospective interested folks. But it's fairly early on in that process.

PeterArment

Okay. I appreciate that. And then just quickly on the 360 Invictus unveiling. Maybe you could just give us some commentary what the feedback you've heard already since that announcements come out kind of leveraging 525 and what advantages you think you'll have there?

ScottDonnelly

Sure. Right. I was at AUSA all day on Monday. So we had the opportunity with our teams to interact with a lot of folks from the customer community. I'd say the interest level is pretty high. They're intrigued with what we've done. Obviously, the army has seen this for a while when we submitted our proposals and are under contract is at this point as well as a number of others for the first phase of that program, which is kind of aiming towards a down selecting. And I think probably March of next year to go down to the two that will then go build flyable aircraft.

But I think the positive -- the reaction is very positive. I mean and clearly this is great technology. It's not in some were procreated as well this is older technology, absolutely not. I mean this is-- the way that you get the speed and the agility from this craft leverages a huge investment that we made obviously on the 525 front and scaling that rotor technology and fly-by-wire technology into the Invictus. So their performance numbers meet or exceed the customer's requirements. And we think we can do it very cost-effectively. And as I said, the risk in terms of the entrance of the technology has been validated already with a lot of flying on the 525.

So I think the response was very positive. But what we'll see where this falls out obviously the down select is next March and we're hoping to be one of the two that gets to proceed into the fly out phase.

Operator

Your next question comes from the line of Pete Skibitski from Alembic. Please go ahead.

PeteSkibitski

Yes. Good morning, guys. Scott, I want to ask you just kind of lessons learned from the longitude certification. Anything you guys are taken away from future design or documentation or process efforts that would lead you to think that maybe the next certification effort won't be so painful? And another hand I think about this issue that the FAA is going through with Boeing. Is this going to maybe make things going for more painful for everybody? Just want to get your thoughts on all that.

ScottDonnelly

Well, Pete, I think there's a lot to learn from this both on our part and interactions with the FAA. I think this is a pretty extraordinary case. The reality here is that we had a new process, frankly one that we did not understand very well and which was evolving and sort of changing. And the reality is we had an aircraft that was essentially designed and built for the total scope of the process was understood. And so we ended up having to do a lot of work to conform what we had done which is a very safe, fantastic aircraft to this new process.

And the scope of the changes was not material but they were painful to have to go through and make the mods and the changes and understand this new documentation process. And the analysis and what that drove in most cases didn't actually impact the aircraft, but in several critical cases it did. And so again, the aircraft we end up with today through certification is not wildly different than and fundamentally different than what we had already designed and built. But there were several critical areas that in order to gain the certification work our way through that process required changes that were painful. And so, look, I think as we go forward we now first of all understand that process very well.

The aircraft that are in our pipeline I'm going to start with SkyCourier that's next on deck. Obviously, this is a part 23 aircraft not a part 25 aircraft. So the process is much different. Obviously, we've done lot our 23 aircraft in the past. So I think we understand and have been working very close with the FAA in a very collaborative way to make sure that we lay out what is the process and what how do we get from here to there on certification of that aircraft.

So I think we're in a much better place in terms of understanding of the process, interaction work with the FAA. And again, this is a part 23 aircraft as it Denali. So it's something that's much more familiar to us and I would certainly expect it to go much smoother than the process that we went through on longitude.

Operator

Your next question comes from the line of George Shapiro from Shapiro Research. Please go ahead,

GeorgeShapiro

Yes. Good morning. Scott, you commented in the release that the net inflation was higher in aviation. What's happened since the last three or four quarters we've been seeing you ahead of that?

ScottDonnelly

Well, what happened, George, is I mean we do have inflation and unfortunately price was pretty flat. But we didn't have price to offset that inflation. And generally speaking we should. And look as part of our looking at the market and the dynamic and saying that we're going to be cautious about the volume side of this thing because we need to be netting price inflation obviously. Now there was a lot of performance in aviation and a lot of good execution that helped to offset some of that disconnect between price and inflation. But we need to be, I mean, I'm not suggesting we are going to continue to get big price increases, but we certainly can't get price up. And we really saw price flattened in the quarter.

GeorgeShapiro

So is that continuing to the fourth quarter or no?

ScottDonnelly

Well, we'll see, right. I mean, I think clearly from a volume standpoint what we're saying we're going to back off a little bit on our plan on volume to continue to maintain and not give up on the price front. Obviously, we got to continue to do work offset inflation.

GeorgeShapiro

And, Scott, you talked about the market weakening some into September. Did it continue into October and where was the strength? Because normally you've said July and August are pretty weak?

ScottDonnelly

So, George, I would say that when you looked at the level of activity with customers has been bumpy. It's been that way through the whole year, right. I mean a turboprop is a great example when you look at for instance Q2 to Q3. Q2 was very light in turboprops great example when you look at for instance Q2 to Q3. Q2 was very light in turboprops and we had a fair number concerns and what should we do on volume and Q3 we had a lot of order activity in turboprops. So it literally is --when you have a market that has uncertainty in it, that's kind of something we did see high-level activities and things softened out a little bit. So it kind of comes and goes. And that's why we'll keep an eye on it as we work through the quarter.

GeorgeShapiro

And then one last one. In industrial, you said that Kautex did quite well, so that would imply to me that special vehicles perform worse than in the second quarter. Is that a correct statement?

ScottDonnelly

Well, George --

FrankConnor

No. We -- I mean we don't disclose things at that level, George. But my comment was that Kautex did on a year-over-year basis, Kautex did -- kind of improved margins Q 2018 to 2019.

GeorgeShapiro

Okay. And then let me get one last one. How much was aftermarket after you'd comment release?

ScottDonnelly

In aviation?

GeorgeShapiro

Right.

ScottDonnelly

About 7%.

GeorgeShapiro

Okay. And you've been running kind of flat or down a little bit but that was due to 606 or maybe you've overlapped that. Is that's what's happening?

ScottDonnelly

No. I think on the Aviation side, George, the first half of the year was a little lighter than we expected. It kind of stabilized more in the second quarter. And again we saw the 7% increase in Q3. So again whether there are deferrals, what was going on, but I mean it started out a little bit lighter but obviously it's 7% in Q3 was a pretty strong quarter.

Operator

Your next question comes from the line of Rajeev Lalwani from Morgan Stanley. Please go ahead.

RajeevLalwani

Hi, good morning. Just two relatively quick questions. Scott, can you provide a little more color on your comments into the fourth quarter on the aviation side? Just different parts of the market and how they're doing? Whether it's turboprop or going to the upper end of the business side for you on longitude? So just some broader color there. And the second question is just higher level, Scott, do you think in order to get aviation margins back to where they used to be you simply need a recovery in the end market? Do you think consolidation may be necessary just given how fragmented the overall market is?

ScottDonnelly

Well, so first of all this commentary on the quarter again. I think we've seen this thing moving around a little bit in terms of strengths and weakness and in the end market through the course of the year or should I say the order activity, right? I mean you've see turboprops kind of softened, turboprops are pretty strong. Jet again for a month to month is moving around. I don't think there is a certainly not a collapse in the market, it's just a question of is it a stronger market and can you deliver more volume than you delivered last year.

And I think we've been sort of when the non-longitude has been exceeding at from last year a little bit. We think it'll be more flat in Q4. Longitude at the high-end, the demand and the interest in that aircraft continues to be very strong. Obviously, we're in a good position in terms of the units that we have on the book. And we just got to get deliveries rolling as we go through the quarter and in the next year. So I think we feel good about where that aircraft is in terms of its interest in the marketplace. But like you say like I said, we're seeing is kind of flattish at this point. And we've talked to you about the fact that given where the market is mostly legacy probably is kind of flat.

I mean that we need to control our own destiny in terms of growth by putting new products out there and longitude obviously is a big example that. SkyCourier behind that, Denali behind that we need to make sure that we're making the right investments to continue to grow our business even in a flattish market. Sometimes the market is going to be better, sometimes it's not going to be better, but we got to manage and whatever that market is.

So we're continuing to drive the margin performance of the business. We expect certainly to see dilution associated with these early aircraft, particularly in light of the rework that we're having to put into them. But in terms of learning curves and the productivity in the cost line, I think we're in a good place with that. But we need to get through this rework phase of getting these aircraft modern and getting him into the field. Again, from a technical standpoint it's not a big deal, but it's fairly invasive just in terms of the amount of touch labor that we have to put in to make those mods.

So I think margins will continue to track in the right direction. Obviously, volume and a strong end market is only helpful to us. As to is there opportunity for consolidation, look, I think everybody would tell you given the nature of how this market has been for the last decade or so that they're probably still are too many guys and too many products and in some of these crowded spaces. We think we've been performing very well and gaining share in these areas. We continue to invest in the right products. I know if there's consolidation opportunities and we'll see how that plays out over time.

Operator

Your next question comes from the line of David Strauss from Barclays. Please go ahead.

DavidStrauss

Thanks. Good morning. Scott, following up on that on the longitude. When the longitude got certified we saw a very aggressive quick ramp. You had big backlogs with NetJets there. You had big backlog of NetJets on the longitude. How should we think about that program ramping? And has NetJets firmed up any additional options since the airplane was actually certified?

ScottDonnelly

Longitudes for NetJets as we do with latitudes, we work with NetJets and kind of have sort of a one-year horizon as we looked at what comes in to the order book. So we don't put, as you know, we do not have that big longitude order with NetJets in our backlog until it firms up, which is again roughly, you'd would be looking at about 12-months is the horizon that they do their planning and we work together to move those in to kind of firm backlog. So like they're --the absolute numbers obviously are not going to be as high on a longitude is they were on latitude. That's a smaller piece of the market but I think that the ramp obviously will, we will see a significant ramp here in Q4. And we'll see that continue to ramp through 2020.

DavidStrauss

Okay and from an inventory perspective on longitude. I mean given the airplane was delayed 12 to 18 months or certification was delayed 12 to 18 months. I mean can you give us any sort of sense how much kind of excess inventory or inventory- your extra inventory you're carrying on longitudes given that it's kind of delayed?

ScottDonnelly

Well, I mean wouldn't give you absolute number, David, as long as we said I think as you look at our revision to our cash guidance for the year that is inventory aviation and several aircraft that will have been in our plan with our original guide are going to move into 2020. I mean these are aircraft for which they're sold. This is just a matter of our ability to make these mods and incorporate the mods and get them delivered to a customer. So I think just given the limited amount of time we're going to see several of those move into 2020 that would have originally been in our 2019 plan. So you combine that. You combine a few T6s that were expected to be delivered this year. That drives the bulk of that change to our cash guidance.

It is inventory at aviation, but again these are largely aircraft that are sold aircraft or ordered aircraft deposited aircraft that are simply going to turn into deliveries in 2020.

Operator

Your next question comes from the line of Jon Raviv from Citi. Please go ahead.

JonRaviv

Hey, good morning, guys. So just on biz jets once again. Just last year around this time we talked about tweaking some like you see rates up, sounds like we're tweaking down right now fully understand that. Would it though be fair to expect the legacy jet deliveries to perhaps be down in 2020, if we just run rate 4Q, 2019 or is it still too early to say? And can you improve legacy jet margin if volumes are down?

ScottDonnelly

I would say it's a long way till 2020, right. So I mean we still have NBAA coming up. We got another full two and a half months. So I think again as we said the deliveries we would expect in the quarter would be flat on a year-over-year basis. That's our view of how we finish 2019. It's way too early for us to be guiding what we think 2020 is going to look like. But, obviously, we will be working that over the next few months. And as always adjust our production run rate accordingly.

JonRaviv

Thanks, Scott. And then follow up on the Industrial segment. Can you just give -- I understand you don't guide by segment within industrial, but margins didn't seem to get that pick up in 3Q that perhaps some of us had expected with the restructuring efforts going through. How do you see that industrial segment margin pacing out over the rest of the year into next year?

ScottDonnelly

ScottDonnelly

I think they're pretty in line with what we expected given our year-over-year changes in terms of the inventory levels. And not needing to do the kind of rebating that impacted us in 2018. The discipline around inventory management is on track with what we said we were going to go do. The volume increased, channel development it's going on both in the old Arctic Cat channel as well as the tracker channel is going well. We had a very successful launch of kind of our business model around snow with Snowmageddon. The vast majority of that was delivered obviously in Q3.

We built what was pre-ordered. So from our perspective the margins and the performance of the business are in line with what we expected in our plan. So it's not a one-year turnaround to get to where we want to be. There's more improvement coming, absolutely, but I think we're on track that's where we want to be.

Operator

Your next question comes from the line of Robert Spingarn from Credit Suisse. Please go ahead.

RobertSpingarn

Hey, Good morning. I just wanted to ask with the fading of the longitude how we think about margins in aviation in Q4 and beyond? How will that learning curve factor in?

ScottDonnelly

For Q4 the longitudes obviously as we've talked about all along we're going to have a significant dilution to our overall margin rates as those coming to the market. And again, the early units combined with labor that we're putting into to incorporate the modifications again are not material from what is the aircraft, but it's a fairly labor-intensive invasive process are going to cause us dilution. So I think we will certainly see that. In Q4, we've accounted for all that in the guidance that we've put out. And clearly as we go into 2020 you get to where you're now running aircraft, they're just coming through our production lines, productivity, which is good, our cost position which is good. so we'll see those margins become stronger as we work our way into 2020.

RobertSpingarn

RobertSpingarn

Okay and then just separately on the helicopter side. With FARA, I guess coming in the spring what is the trajectory of the military if you're not part of that down select?

ScottDonnelly

Well, there's two big pieces of development, I shouldn't say just two , there -- the Bell military story is more complicated than that, right. I mean I think we continue to sustain the multi-year three rates on non V-22 which is where we are. I think we're seeing a significant uptick in after-market because those fleets both on B-22 and H1 continue to grow. Obviously, FMS is important. We just saw the announcement of being selected in the Czech Republic. There are several additional FMS in case that is out there. I think you've probably seen publicly the Israelis have now requested formally a P&A on the B-22, which is encouraging.

Obviously, we've started deliveries on the Navy for their CMV 22s. I think there's potential to see that and that grow over time which is -- which would be very good for the business. So I think we have a pretty good plan in place to sustain where we are on the military side of Bell. The long term, big upside is around FARA and obviously around FARA which is the V-280. And the good news is both those programs seem to be moving out very well with the army. As I said, we already are under contract on FARA. We'll see that down select I think next March. And on the V-280, as you know, the Army has come out and made a pretty significant move to the left in terms of their dates from 2035 to 2030. I think there's potential for that to accelerate further.

But at this point they expect to put people under contract again in the early part of next year to do to start their official process. It would be under contract. They're saying it's probably 19- months processed and then award in the MD contract or the selected winner .And I think our V-280 is in a great position, obviously, that's an army decision that's got to be made. But I think we have clear line-of-sight to compete and hopefully win what would be a very large program on the V-285 front. So those are the future obviously and they are terrific programs. But I think we have a pretty good plan in place to sustain that military business in both B-22 and H1 and after market to bridge that.

Operator

Your next question comes from the line of Noah Poponak from Goldman Sachs. Please go ahead.

NoahPoponak

Hey, good morning, everyone. Scott, when you're talking to the team at Cessna or talking to customers directly, is it possible to kind of hone in on what your customer set was enthused about in the world order in their business earlier in the year and what has some concern today? Is it just total broad macro or stock market, if you get a trade deal, does that help your business or folks going to now want to wait till the 2020 election passes to act? Any help you can provide there?

ScottDonnelly

Noah, I think, I don't think it'll be a surprise that when you talk to customers and they look at uncertainty. You got trade deals, you got Brexit. Most of these guys can't feel good watching the political stuff that's going on in DC. I mean it's just, it creates a lot of uncertainty. And look, I think we see this reflected in business confidence numbers, right. In the surveys and we weren't -- we're not economist here, but we read all those numbers as well. And it's understandable that a lot of businesses particularly small midsize guys which is our big part of our customer base are in many cases deferring CapEx and investments in their business via business jets or otherwise just because of uncertainties.

And obviously the trade kind of things and the Brexit things and the prospects. I mean I think concern over a administration that's anti businesses is one that makes people pause.

NoahPoponak

Yes. Okay. On the cash flow change, the longitude inventory builds makes total sense, but that the cash flow guidance before today's change, I think would have had the free cash to net income conversion a little bit below 100% and it's kind of been below 100%, five of the last six years or so. And there's been a negative change in working capital. Can you guys help us better understand why that is? Is it percentage of completion accounting somewhere in the business or what's driving that? And do you get to that -- do you get to a better conversion rate going forward?

ScottDonnelly

So, look, we talked about a number of additional issues. Obviously, the build that we've had it at Aviation around the longitude coming in clearly has been a drag. We've had a similar situation with 525 going on in Bell. Yes for sure there has been change on the military side from a cash flow -- from performance base to the 606 and how you roll the cash versus the cost kind of revenue recognition. So those things are all contributors. I don't know, I'm not probably prepared to go back into a five-year look at it but --

FrankConnor

Yes. I mean certainly not analyzing all five years as Scott said. But most recently particularly this year in addition to the aviation stuff that we're talking about, we've highlighted kind of what's going on at Bell, which is a significant difference from a cash timing standpoint in revenue and profit recognition relative to cash where we were kind of ahead on cash, if you will. And now we're reverting to being more in line as we close out multi year or two. So that's been the kind of the big drag in terms of conversion this year away from the aviation inventory issue.

NoahPoponak

Should we -- what kind of drag or lack thereof from that accounting perspective should we expect in 2020-2021?

ScottDonnelly

That will have washed itself out as we close out multiyear two here, so you shouldn't expect that.

NoahPoponak

Got it and then if I could just sneak one more in on Ripsaw that you displayed at AUSA for RCB, I was curious if you could talk about your decision to partner with FLIR? And to have the new unmanned offerings that they've recently acquired as part of that vehicle?

ScottDonnelly

I'm not sure I would go into a whole lot more detail than what we've talked about at the show. And what we have on display. Obviously, FLIR, I think when you look at the -- obviously, we acquired Howe & Howe because we felt they had some fabulous technology in terms of the vehicle, which I think shows itself in both SMET and now the RCB programs. FLIR has been a terrific partner in terms of bringing their technology to that platform. Obviously, the technology that we've brought really which has its roots in our Hunt Valley and then aircraft business. The intersection of that stuff is really I think brought out a terrific vehicle with a great sensor partner in FLIR and obviously our organic technology around the control capability.

So I don't know that I would go into much more than that. I think it's been really well received. It's a spectacular vehicle and obviously one that we're looking forward to competing for some of these future army programs.

Operator

Your next question comes from the line of Ronald Epstein from Bank of America Merrill Lynch. Please go ahead .

CaitlinDullanty

Hi. Guys. This is Caitlin Dullanty on for Ron. Textron Systems was down 12% year-over-year this quarter and you mentioned that Aviation saw weaker military volumes. Can you expand on what areas and programs will provide growth in defense for you guys in a short to mid term? Did anything new come from AUSA this week?

ScottDonnelly

Well on the system side, obviously, we're sort of the year-over-year change is the end of the TAPV program and the ANA programs which are all vehicle programs. In terms of the rest of that business look like it's in pretty good shape. Obviously, as we go into 2020 and beyond now the big change in the marine and land systems business is ship-to-shore connector moving from a developmental program into a production program.

We're in detailed negotiations with a customer at this point on the FY 2017, 2018, 2019 as I said, we've passed our builder files. We're getting ready to go through the Navy acceptance trials. By the way earlier this week, we flew craft 101 which is the second one. It did its first time on the water and ran flawlessly for over six hours and accomplished an awful lot out of the test card. So in terms of the, I think we feel very good about that program which has been a challenging developmental program transitioning now into the balance of those units.

And obviously in the production contracts. So that is a big turnaround for the business as we go into 2020. On the defense side at Aviation, again T-6 has been, that's -- it's mostly foreign military sales. These things always take time. Again, we -- it's a little bit problematic this year that we had a delay in the light attack program. Obviously, something at this time a year ago was going to start early in 2019. We're still being assured by the customer this program is going to happen. Obviously from budgeting and funding standpoint in Congress, it's fully supported.

So we expect and are being told this is now going to be a 2020 activity. That sort of deferred that from 2019 into 2020 versus our plan. And again we have a customer that was already on the books, but just for budget reasons whatever that moved into 2020. So there's a lot of -- there's not one big program in aviation. These are tending to be a number of smaller FMS driven programs. You saw we just were notified to Congress on Tunisia, which again is a nice T-6 program, but one that will -- in all likelihood probably have deliveries in 2021, but which would starting to production next year.

Operator

Your next question comes from the line of Robert Stallard from Vertical Research. Please go ahead.

RobertStallard

Thanks so much. Good morning. Scott, on the Biz jet front, and I'm not sure you get on to this but you never go. What are you seeing from the competition? Are they matching what you're doing in terms of discipline on price and volume? Or is that making your life more difficult?

difficult?

ScottDonnelly

Well, Rob, I'd say, well, Rob, as always say it makes our life more difficult, but like this is every deal is a competitive deal. And I think again our share is based on the products we're put in front of customers. We absolutely as we look at things like longitude feel like we've got a better product in the market than our competitors do. We get great feedback from customers that look at the aircraft. They fly the aircraft to take demos in the aircraft. And I think we see those convert to sales. And I do believe that today we see a premium on the pricing on that because it's a better aircraft/

RobertStallard

Are you seeing similar sort of dynamics on some of your older models as well?

ScottDonnelly

Yes. I mean but I don't know that it's very different than it's been for the last few years, Robert. It's -- I mean be it competition M2s and CJ's and XLS and Embraer, obviously, it's-- I don't think there's a big difference in the dynamic that we're seeing in most of that -- most of those segments of the market which again we've been driving prices over the last couple years successfully. And I think we want to make sure that we continue to do that.

RobertStallard

Okay. And then secondly on Kautex, and what could happen there historically been very reluctant to make any disposals, if they are diluted to earning. So is it pretty big change here? Are there any other parts of the portfolio where you think there is this disconnects between what's reflected in the share price and what people think of the business is?

ScottDonnelly

I don't think so.

RobertStallard

So this is a one-off thing, Kautex?

ScottDonnelly

No, look, Robert, as we said it's -- it is arguably a different business model, right, at Tier 1 automotive is different than engineering and manufacturing and selling and servicing in products. And that's the difference in that model. It's a good business. It's been a successful business for us. But it's one that warranted at least understanding what options there might be.

Operator

Your next question comes from the line of Carter Copeland from Melius Research. Please go ahead.

CarterCopeland

Hey, guys. Thanks. Just a couple of quick clarifications. One, Scott with respect to the longitudes and rework roughly how many aircraft we talk about here? Is it a handful? Less than that, slightly more than that. And then, Frank, just I wondered if you could give us some insight in what the --if there was a favorable net EAC impact in systems? Thanks.

ScottDonnelly

Carter, I don't -- we don't go into specific unit numbers. We haven't forecast specific number of deliveries. So I'm not sure to go into that number. Obviously, it's a finite number. The aircraft had been produced and we'll get this behind us here in the quarter. So it shouldn't. obviously will not extend beyond that.

FrankConnor

Yes and in terms of the EAC, as you know, we don't break that out by segments. There was for the total companies the net program adjustments was $21 million in the quarter. But we don't break that out between where that resides.

CarterCopeland

Okay and just maybe to get out in another way, Scott, just to try to bound that the outcome here were-- was it a limited finite number of aircrafts in construction that had to go back to rework or was it all of them pre cert?

ScottDonnelly

I mean it's all of them, right. I mean you have to bring them all up to the same configuration. So all of the aircraft are going through the same process in terms of the mods. And these mods, by the way, Carter, as I said, it's wiring for some changes. So hey guys we got to go through multiple channels or different connectors. It's not a big deal. But it is kind of invasive right to get at that.

CarterCopeland

Yes. Its' a lot of work.

ScottDonnelly

And so it's --you wouldn't see any difference in the aircraft. There's no performance difference in the aircraft. Their customer, there's no change to the aircraft. It's largely to do with some of these redundancies and things that we just had to make these really technically minor modifications. But there --they are in basic, but again yes you'll have that behind.

CarterCopeland

It's well understood work scope, it's just tedious.

ScottDonnelly

It's tedious.

Operator

Your next question comes from the line of David Strauss from Barclays. Please go ahead.

DavidStrauss

Thanks. Thanks for taking the follow up. So you talked a little bit about this on B-22. Can you talk to us exactly when you're going to be through all the way through multiyear II and completely onto multi year III? And how is that transition going and how do you feel about the Bell margin profile as you get close to being pulling on multiyear III?

ScottDonnelly

Well, I think the last delivery is probably in the late Q1 or in the beginning of Q2 next year. And I remember under the accounting that most of the revenue is complete. So from a margin standpoint, no, look I think the margin and the productivity we continue to drive a multiyear III is -- it's going to take a little time to get to multiyear II. Obviously, the big difference which again we've seen a lot of this year is that the program adjustments are lower than they were a year ago because of the reaching in a multiyear II and the reductions in management reserve and so forth so.

But most of that we're seeing as we go from 2018 into 2019 but there'll be some further into 2020. I'm not sure I can give you a lot more on, nothing we want to get in a margin rates pipe specific contract at this point. But like all multiyear, you had some pretty good productivity and efficiency and we're working on that now as we've started to roll the multiyear III aircraft. I mean a lot of that revenue this year is multiyear III aircraft because it's on the cost to cost basis.

DavidStrauss

Right, okay. And, Frank, with interest rates down a fair amount year-over-year at least based on where we are today, any thoughts on pension for next year? I think you're booking pension income currently and contribution. And then also on corporate, corporate and the tax rate burning I think a fair amount lower than what you originally projected. Are those kinds of numbers carrying through in the 2020?

FrankConnor

So on the pension, obviously, kind of we'll see how things ultimately play out from a rate standpoint kind of 50 basis points of discount rate is about $31 million. About pension expense, that's disclosed in our 10-k and so well we haven't kind of obviously run those all those numbers yet as we looked at corporate. Kind of for this year we're probably maybe 10-ish million below our original guide of 140, we're probably looking at 130 that obviously depends on share prices that impacts corporate expense.

I wouldn't expect any kind of significant change to those types of ranges as we look at next year. But we haven't gone through all those budgeting exercises yet.

DavidStrauss

And tax rate for next year?

FrankConnor

Tax rate kind of we've had some discrete items this year that got us to 17. We're probably in the 20-ish percent type area, we will continue to have some items as we kind of look forward that are a slight benefit to rate versus kind of a lower 20s area that we had talked about. So maybe 20-ish percent type area.

Operator

Your next question comes from the line of George Shapiro from Shapiro Research. Please go ahead.

GeorgeShapiro

Yes. Just a couple of quick ones. Frank, earlier in the year you said that systems revenues for the year would be about $1.4 billion, certainly doesn't look like we're going to get there. What's kind of a new number for the year?

FrankConnor

We're running around to that level maybe a little slightly less than that level, but not a significant change from that level. Systems, it's going to do better on a margin standpoint and kind of maybe just a little short of that $1.4 billion from a revenue standpoint, but it's in that area.

ScottDonnelly

The revenues should be very close to what we thought, George, and the performance in the business has been very good from a margin standpoint. So I think it'll actually exceed our guidance on --for sure it will exceed our guidance on an upside and should be pretty much in line of the revenue side.

GeorgeShapiro

Does that imply a big jump to like $470 million or so in the fourth quarter? And what's going to drive that from what was like $311 million this quarter?

ScottDonnelly

I don't know, George. I never heard that. I mean your numbers are roughly, right. It's probably going to be north of 400 to do the math, but it's-- I mean we're not going to get into program by program deliveries, but that's what's in our plan and our latest forecast. As Frank said, it's probably going to be a little wider than 1.4 but not dramatically and the margin end performance is very strong. And I think we continue to feel very good about opportunities and the wins on new programs and selections are obviously more to come, but I think we're in a pretty good place.

Operator

Your next question comes from the line of Jon Raviv from Citi. Please go ahead.

JonRaviv

Hey, thanks. On the longitude, I think for waiting for the certification for a while. What does certification and entering the service mean for actually selling the plane? Can you talk a little bit about your backlog and pipeline, whether it's fractional versus individual versus corporate? And does the pricing in that backlog support the margin plan?

ScottDonnelly

Look, as I don't -- I mean we're not going -- I don't think we're going to go into dissecting the backlog. I think we have a good backlog on longitude. It's -- it has certainly some fractional with NetJets who's a great partner. We expect to see a lot of success of that platform much as we saw with latitude in that class, but also we have a lot of retail customers as we said all along is are lined up for the aircraft as well. So the pricing has been where we expected it to be, the costs are where we expect it to be. Again, we have this issue of getting through the already built aircraft and making the mods which is a problem, but yes we'll just as we finally got sort of behind us we'll get that activities behind us here in the fourth quarter.

And I think we have a great outlook on both the success of the product and the profitability of the product going forward.

Operator

Your next question comes from the line of Cai von Rumohr from Cowen. Please go ahead.

CaivonRumohr

Just a quick follow-up. So obviously with interest rates down close to a 100 bps you're talking $50 million -$60 million non cash headwind. Any thoughts about switching to mark-to-market?

ScottDonnelly

I don't know if we had comment on that yet, Cai. I mean certainly we've seen some other companies do that and it's something our team will look at just as I'm sure many companies are. Right, your math is probably about, right. I'm sure you're.

End of Q&A

Eric Salander

Okay. Gregg. I think that does it for the call. And if there are any follow-up questions, I can be reached today, tomorrow, next week, so that's it.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.