

BSAS Student Research

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Aerospace and Defense, and Industrials

Textron Inc

December 9, 2009

Ticker: TXT
Price: \$19.88

Recommendation: BUY
Price Target: \$35.95

Earnings/Share

| | Apr. | Jul. | Oct. | Jan. | Year | P/E Ratio |
|----------------|-------------|-------------|-------------|-------------|-------------|--------------|
| 2008A | \$0.58 | \$0.60 | \$0.59 | \$0.83 | \$1.95 | 13.4X |
| 2009A/E | 0.58 | 0.60 | 0.58 | 0.83 | 0.39 | 51.2X |
| 2010E | 0.61 | 0.63 | 0.61 | 0.87 | 2.72 | 13.2X |
| 2011E | 0.64 | 0.66 | 0.64 | 0.91 | 2.85 | 14.3X |

Highlights

- **BUY recommendation based on growth estimates and Textron Financial Company (TFC) stability:** We rate Textron, Inc. as a BUY. Our one year price target of \$35.95 yields a 81% return. This is based on a combination of a DCF, sum of the parts valuation, normalized price to earnings valuation, and is supported by sound fundamentals of the company.
- **Soft recovery in Sales of business jets is in the horizon:** After a year that included months where sales almost halted, it is our belief that Cessna's business –strongly tied to corporate wealth- will slowly recover.
- **Continued US military involvement abroad will translate into growth at Bell and Textron Systems:** We expect that the helicopter segment of Textron will see sales resume to normal levels within a year. Textron Systems will benefit from its largest sub segment, Advanced Combat and Support Systems, since the military budget emphasizes investment in military intelligence systems.
- **Textron Financial Company is successfully liquidating part of its portfolio:** Textron was believed to be close to bankruptcy in the midst of the credit crisis. Although TFC has yet to liquidate further, it is well on its way to solve its credit problems and resume the synergies it created for Textron in the past.
- **Although backlog has fallen, it has done so according to management's expectations:** The cancelation of the Citation Columbus has reduced backlog by \$2.1 billion. This, plus order cancellations, however we maintain our bullish view of the company.



| Market Profile | |
|----------------------------|------------------|
| 52 Week Price Range | \$3.57 - \$21.00 |
| Average Daily Volume | 2.9M |
| Beta | 1.65 |
| Dividend Yield (Estimated) | 0.40% |
| Shares Outstanding | 260.4M |
| Market Capitalization | 5.4B |
| Institutional Holdings | 76.1% |
| Insider Holdings | 0.29% |
| Book Value per Share (MRQ) | \$10.23 |
| Debt to Total Capital | 3.5% |
| Return on Equity | -11% |

Investment Summary

Textron Financial Company (TFC) no longer endangers its parent company

We believe that Textron is widely undervalued by the market, as many still have reservations regarding the credit markets and thus the ability of TFC to completely correct its course. Based on a sum of the parts valuation, which we chose because of the conglomerate nature of the company, we believe that Textron's true value is higher than what is shown in the market, providing the financial arm overcomes its problems. Earlier in the year Textron's stock reached a low of \$3.57, which was more of a reaction to the uncertain future of Textron's financial arm, and concerns that it will pull down the parent company, than to the company's performance itself. Currently, TFC has high hopes of survival, and has been successfully liquidating some of its receivables with a conversion rate of over 90%. As TFC deleverages itself, the future of Textron as a parent company is assured and the stock price will eventually reflect the company's true value.

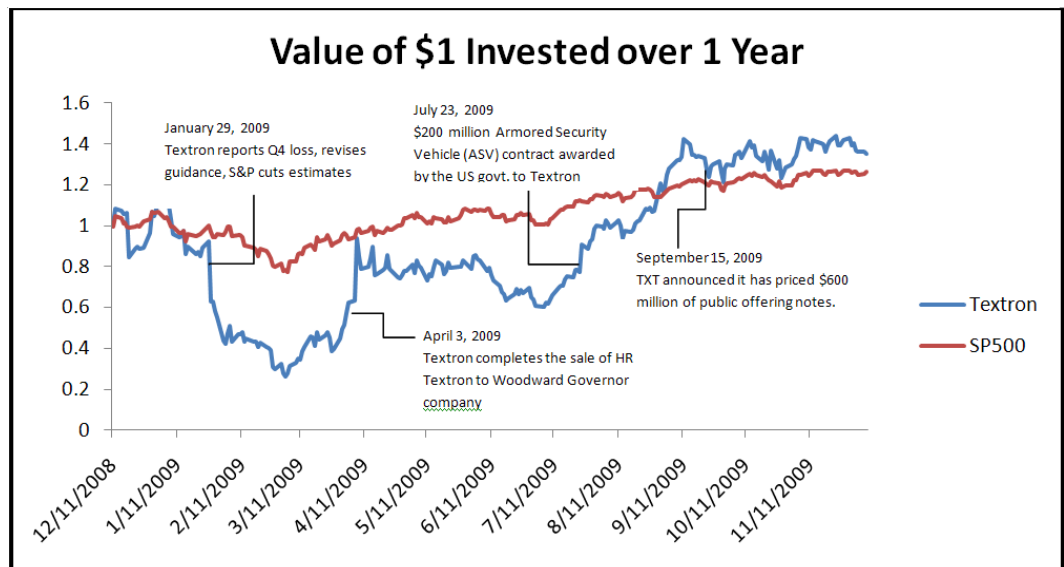
Cessna will recover as corporate wealth rebounds

Sales across all of Textron's business segments suffered pressures from the recession but are now returning to normal levels. We expect Cessna (31% of revenues), which is strongly correlated to corporate wealth, to see modest growth, though we think this segment will post the slowest growth among Textron's divisions in the near term. As seen in Figure 15, corporate wealth is estimated to increase substantially in 2010. Cessna typically lags corporate wealth for two quarters, and because of this we believe that most of the growth in sales will take place in the second half of the year and continue thereafter.

Bullish on defense-related segments of Textron

Bell and Textron Systems (36% of revenues combined) will be the drivers of growth as the US continues its military involvement abroad and increases spending in intelligence, surveillance, and reconnaissance systems. These areas of increased spending will directly benefit Textron's wide and varying sub-segments including Advanced Combat and Support Systems. Lastly, we believe that Kautex (3% of revenues) has significant potential and will both become a larger part of Textron and outperform most of the sub-segments.

Figure 1: Value of \$1 Invested Over 1 Year



Source: Daily prices provided by Yahoo Finance, News provided by Standard & Poors

The steep decline at the end of January was due to the widespread belief at the time that Textron Financial Company was so illiquid that it could bring its parent company to bankruptcy. At the peak of the credit crisis, TFC had difficulty providing capital for operations, along with difficulty collecting receivables. When the credit markets slowly started to unfreeze, both situations improved slowly and TFC has been liquidating part of its receivables.

Valuation

We arrived at our price target of \$35.95, which if achieved yields a 81% return. We arrived at this price target by considering a number of different valuation methods. In addition to our DCF we used a sum of the parts analysis. We weighted these equally at 35%. We also took into consideration our normalized PE valuation because we believe that it reflects the price at which Textron should be trading once the economy recovers, and normal operating conditions are restored. For these reasons our normalized PE valuation received a 30% weighting. We conducted two more comparable valuations; Price to Sales and Price to Book, which were based on our comparison groups. Although these two valuations yielded high target prices they received no weighting in our target price. This is due to the fact that we believe there is dislocation in the market; therefore we wanted to value the company on a piece by piece basis, or using other methodologies that do not totally rely on current operating conditions. Essentially we believe that our P/S and P/BV valuation methodologies provide less insight into TXT (or other cyclically sensitive companies) during trough economic / operating environments. Figure 2 depicts the origin of our target price.

Figure 2: Valuations Summary

| Valuation Model | Target Price | Weight |
|-------------------------|--------------|--------|
| Sum of the Parts EBIDTA | \$ 33.19 | 35% |
| Discounted Cash Flows | \$ 39.35 | 35% |
| Normalized PE | \$ 35.22 | 30% |
| Price to Sales | \$ 38.57 | 0% |
| Price to Book Value | \$ 27.00 | 0% |

| | |
|-----------------|----------|
| Current Price | \$ 19.88 |
| Projected Price | \$ 35.95 |
| Return | 81% |

Initially, a price target yielding an 81% gain if achieved seems substantially high. However, when looking at past performance of Textron's stock price in combination with our outlook for the company, this is no longer the case. Year end 2007, Textron reported earnings per share of \$3.71, and as can be seen from the chart in Figure 16 was trading around \$70, a multiple of over 18. Our 2010 projection for EPS based on strong fundamentals is \$2.76. Although this is a long ways from \$3.71, it makes a target price of \$35.95 look much more justifiable, representing a multiple of only 13.

Sum of the Parts

Since Textron is a conglomerate, we decided to create a sum of the parts valuation, specifically using the sum of the enterprise values for each of its five divisions. In our model, we find those five individual EVs by researching companies comparable to Textron's divisions that have either been bought or sold recently, and/or are current competitors of Textron¹. Each comparable company was bought or sold at its EBITDA times a multiple (in the case of the Financial Segment, we use the P/BV multiple). We use that multiple times the EBITDA of each segment of Textron in order to find their EV. The sum of the segments' EV represents Textron's sum of the parts (Please refer to Figure 9), which divided by the number of outstanding shares results in our one year target price of \$33.19.

Discounted Cash Flows

Our discounted cash flow model is based on both company historical financials and the 4 year CAGR derived from our revenue model. We projected both our balance sheet (Figure 6) and income statement (Figure 5) out five years using sales numbers for each year derived by compounding historical sales at 5.81%. From these numbers we derived free cash flow (Figure 7) for the five forecasted years, and discounted them back to the present value using the Weighted Average Cost of Capital derived in Figure 8. We based our growth rate on assumptions and beliefs depicted in our revenue model (Figure 7.2). Our CAGR is derived directly from these assumptions. This gave our DCF a target price of \$39.35. Though this is the highest target price of all our valuations, we feel it deserves the co-highest weighting because it is the only model that considers both long term forecasts and the capital needs of the company.

Normalized Price to Earnings

Due to the fact that we believe there is dislocation in the market; we wanted to value the company using a method that does not totally rely on current operating conditions. This led us to our decision to use a normalized PE. To do this we found an average of prior year's (pre-recession) earnings multiples. This number came out to 17.5, compared to the current multiple of 49.88. We believe that in a normal economic

operating environment, our pre-recession multiple is much more justifiable. This multiple is then used in conjunction with our 2012 earnings estimates. We use 2012 estimates because we believe that by then the economy will be out of the recession and Textron will be operating under more normal economic conditions. This 2012 price target is then discounted back 2 years at the cost of equity to 2010. This gives us our 2010 normalized PE price target of \$35.22. The model is included in Figure 10.

Price to Sales and Price to Book Value analysis

Due to the fact that Textron is a conglomerate operating in different lines of business, we do not consider these valuations to be the most appropriate methods for our current analysis of Textron. This is also because we believe that there is dislocation in the market and we do not want to use valuations that rely more heavily on current operating conditions. For this reason we haven't assigned any weight to either method, and the metrics are explained as follows:

To conduct our Price to Sales and Price to Book valuations based on other conglomerates would be inadequate due to the diversity and varying businesses segments of each. To address this problem we formed mock conglomerates, or "peer groups" as shown in Figure 11. To forecast revenue we broke down Textron into product categories by operating unit, based upon their percentage of revenues (Figure 7.1). Using this same breakdown we found the closest competing companies for each product category. In our comparable valuations we created the peer groups based upon a weighted average of Textron's corresponding segment's revenue percentages. Essentially we created mock conglomerates with the same product mix and the same breakdown of percentages of revenue in each product category as Textron. We created 2 peer groups as a basis for comparison, and proceeded to do regular PS and PBV valuations.

The Price to Sales valuation can be found in Figure 12 and results in a price target of \$37.20

The Price to Book Value model is found in Figure 13, and yields a price target of \$26.45

Risks to Our Price Target

Cessna: Cancellation of orders due to delays in the aircraft delivery schedules may have an impact on our estimates, especially if current economic uncertainty and market turbulence is prolonged.²

Bell: US Air Force spending may call for less combat aircraft than was historically the case. Although the US is initiating an involvement in Afghanistan, the nature of this involvement is far less oriented in combat than in Iraq. In terms of the commercial side, we are assuming that a recovery of the health and energy sectors will spark demand for commercial aircraft. Such demand, however, may continue sluggish for a longer period of time than we estimate because companies have other priorities at hand such as to start rehiring personnel in order to return to operating at full capacity.

Textron Systems: Our price target would be adversely affected if the Obama administration was to change their current plans and decrease the FY2010 defense budget. Our target price would also be affected if our anticipated budget cuts were not conservative enough for future years after FY2010.

Industrial: In respect to Greenlee, our price target will be adversely affected if the downturn in commercial real estate is prolonged past our expectations. In addition our target is dependent on the continuation of the overall trend of technological advancement and digitization throughout businesses. In respects to E-Z-GO, our price target will be affected if consumer spending on travel and leisure activities does not increase in 2010 and thereafter. In addition it will be affected if golf course, airport, and resort spending on light transportation vehicles do not increase after 2010. In respect to Jacobsen, our price target will be affected if management's expectations of their results in the golf and turf care business are incorrect. In respects to Kautex, our target will be affected if the automotive industry does not grow at a slight lag to the predictions made by Textron's management (given in their 10K).

Financials: There are possibilities of complications with exiting portions of Textron Financial Corporation. Any such complications could be detrimental to the company and impact our target price accordingly.

Business Description

Textron Inc. (TXT) was founded in 1923 and headquartered in Providence, Rhode Island. The primary activities of Textron are to produce aircraft, defense, industrial, and financial solutions. Textron is comprised of five different business; Cessna, Bell Helicopters, Textron Systems, Industrial, and Financial.

Segments

Cessna (31% of revenue) is one of the leaders in designing and manufacturing business jets. Cessna's products include: the Citation family of business jets, which, with 8 models, is the largest selection of business aircraft offered by any company in the industry. Furthermore, they have four models in single engine turboprops, single engine piston aircrafts, citation shares (Citation jets fractional ownership), used aircrafts, and they also manufacture spare parts and provide aircraft services. They recently cancelled the Columbus business jet which would have been the biggest in their family of Citation business jets³.

Bell Helicopter (27%) manufactures advanced helicopters and tilt-rotor aircraft for the use of the military, US government and medical providers, and they too provide spare parts and services. For Military Aircraft they provide advanced models such as, the V-22 Osprey tilt-rotor (in collaboration with Boeing), and the H-1. Both lines include utility and advanced attack models, to deliver some 105 units by 2013. The commercial side provides aircraft to medical care, oil and gas companies, and government sectors. Lastly, their support services unit provides parts and expertise for both military and commercial aircraft.

The industrial segment (19%) provides solutions for industrial pumps and gears, plastic fuel systems, equipment for wire and cable installations, golf carts, and turf-care. The largest sub segment is Kautex, which manufactures new generation plastic fuel systems. Other lines of businesses include E-Z-GO which makes golf carts and off road vehicles; Greenlee which manufactures power tools, electrical connectors and equipment for wire and cable installation; and lastly Jacobson which produces turf maintenance equipment.

Textron Systems (19%) focuses on defense, mainly through its production of precision engagement systems, unmanned aerial vehicles, ground surveillance units, and combat vehicles.⁴ They also supply munitions, sensor systems, and intelligence software. A key driver of Textron Systems is the annual US Department of Defense budget, and the related procurement spending they obtain for both production of deliverables and R&D.

The function of the financial segment (4%) is to provide finances for aircraft finance, asset-based lending, distribution financing, golf financing and resort financing. Textron also operates in Canada, Latin America, Mexico, and Africa.⁵

Brief History

Textron was first listed on the New York Stock Exchange in 1947. Formerly in the textile business, the decline in the industry forced Textron to diversify soon after by acquiring businesses in unrelated industries. By 1960 Textron purchased Bell Aerospace and added the golf cart manufacturer E-Z-GO. By the 1980's Textron had completely left textiles and continued to make acquisitions focused mainly in the aerospace, defense, automotive and industrials markets, and started to expand internationally. By 1997 nearly 40% of the company's revenue came from non-US operations. In 2000 Textron went through a large transformation to strategically adapt to the changing market patterns that would allow for future growth⁶.

Industry Overview and Competitive Positioning

Conglomerates, such as Textron, will post modest growth as the global economy slowly recovers and countries around the world, especially the US, implement stimulus packages. GDP is expected to grow around 3% in 2010, while interest rates will remain low for at least the first quarter supporting growth in consumer spending which accounts for almost two thirds of the economy. Textron is among the largest players in the conglomerate industry. Conglomerates include a wide array of businesses lines that differ and rarely have pure-plays, consequently, they are best analyzed through implementation of a sum of their parts valuation. That said, the industry overview for Textron's five main lines of business is best served by describing the drivers and outlook of the three most relevant industries: Aerospace, Defense, and Industrials.

Aerospace industry, corporate jets sub-industry

This industry is currently driven by corporate profits, high net worth individuals, the effects of the pre owned jet market, popular perceptions of corporate executives flying business jets in the current economic crisis, and new players in global wealth like China. Analyzing the role of these drivers and how they affect Textron's business will help clarify the industry's competitive environment and outlook⁷.

Effect of corporate profits and high net worth individuals on business jets

Demand for business jets is highly correlated with US company's profits, and as profits are expected to remain low, jet production is expected to decrease between 35% to 40% for 2009 with a slow recovery in 2010 as corporate profits improve.⁸ A historical example is presented between 2003 and 2005 when US corporate profits were underperforming, and jet deliveries decreased as measured by the MSCI world index

(Figure 15). On the other hand, as also seen in Figure 15, 2007 was a year when corporate profits were at their peak and, accordingly, business jet deliveries reached their highest level months after. Since corporate profits in 2010 are poised for a modest recovery, so goes our expected sales of business jets. In fact, along with the current recovery from the March 2009 lows, quarter 3 gave a very positive and optimistic view for the industry, especially for Cessna. Another driver of revenues is high net worth individuals who account for 15% to 20% of Cessna's total revenue. As the economy grows there will be an increase in both the number of people who are considered high net worth (1 million in financial assets), and their willingness to spend.⁹

Used Jet Market, and Perceptions on the use of business jets

As a result of weak demand, excess inventory of business jets has caused the proportion of pre-owned business jets for sale to grow to 18% from 13% before the current crisis started¹⁰. This effect is largely fueled by companies selling their business jets for not only economic reasons, but also for public relations. Part of the damage control on the corporate world in general was to move to travel commercially as opposed to privately. However, as the used jet market attains better and more stable prices, and, lower volumes available for sale, recovery is sure to follow. Coincidentally, both companies and individuals will have more incentives next year to upgrade planes if they sell their used aircraft at good prices. Finally, we expect stabilization within the used jet industry, which as discussed prior will provide for some recovery in the forward year.

Competitive Environment of Corporate Jets Sub-Industry

In terms of competition, Cessna is the industry leader by deliveries, EBIT and market share with about 30% (Figure 14). A 4 year comparison shows that Textron's Cessna is able to perform right at the top in terms of revenue growth, as seen in the figure below.

Figure 3: Cessna Competitors Analysis

| Sales | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------|--------|--------|--------|--------|--------|
| Cessna | 10,253 | 9,141 | 8,358 | 10,295 | 11,882 |
| Embraer | 2,666 | 2,981 | 3,095 | 3,464 | 3,547 |
| Hawker Beechcraft | 3,012 | 3,433 | 4,116 | 4,828 | 5,512 |
| Gulfstream | 1,626 | 1,431 | 1,919 | 1,975 | 2,199 |
| Dessault Falcon | 7,896 | 8,019 | 8,142 | 8,296 | 9,713 |
| Bombardier | 25,453 | 25,004 | 25,631 | 28,858 | 32,852 |
| Revenue Growth YOY | | | | | |
| Cessna | | -11% | -9% | 23% | 15% |
| Embraer | | 12% | 4% | 12% | 2% |
| Hawker Beechcraft | | 14% | 20% | 17% | 14% |
| Gulfstream | | -12% | 34% | 3% | 11% |
| Dessault Falcon | | 2% | 2% | 2% | 17% |
| Bombardier | | -2% | 3% | 13% | 14% |

Sources: Companies' financials

Defense Industry

Largely correlated to the Department of Defense (DOD) budget, the defense Industry signals a general upward trend, starting with a 4% DOD budget increase in 2010 over 2009. President Obama in his first year has requested and has received more for the defense budget in real dollars than any other president. The government will eventually reduce the defense budget as the US faces over a trillion dollar deficit. The Quadrennial Defense Review (QDR), which is an overview of national security and defense every four years, will dictate the allocation of defense spending for four years, the next QDR will occur in 2011. It is expected that we will see deep cuts in procurement and Research Development Test and Evaluation (RDT&E) spending. With the 2010 DOD budget we have already seen deep cuts in defense procurement spending, which we see as a precursor to future spending by the US government. The Global War On Terror (GWOT) demands more modernized and informed methods of warfare, this greatly benefits Textron Systems, as the primary products produced within the segment represent new intelligence based warfare systems.¹¹ Specifically, Textron Systems benefits from the emphasis in the new DOD budget of irregular warfare. Irregular warfare can be best classified as, warfare tools and tactics derived from intelligence, surveillance, and reconnaissance systems. As a result a specific component of Textron Systems that will see benefit from this new emphasis is Advanced Combat and Support systems.

Defense - Advanced Combat and Support systems (13% of TXT through the Systems segment)

The 2010 DOD budget Emphasizes intelligence, surveillance, and reconnaissance systems (ISR's) as a result of increased irregular warfare (more tactical and discrete operations). Accounting for 10% of the budget, ISR's will likely increase in the future, and unmanned aerial vehicles (UAV's) are central in ISR, 50 Predator models have been requested by 2011. Though not Textron's Shadow project, UAV provides an area of growth and an opportunity to the company. Textron will be forced to compete with General Dynamics for ISR's and, specifically, the Future Combat Systems which aims to modernize battle by synchronizing missions through the use of both unmanned ground and air vehicles. Textron's subsidiaries Overwatch, Geospatial, Operations, and Overwatch Tactical Operations, are in a position to provide the software to coordinate the operations that are desired by the Future Combat Systems program.

Defense - Aerospace Defense Industry (17% of TXT through Bell Helicopter, 1% through the Systems segment)

The Air Force budget will decrease in 2010 for the first time in five years, but will increase thereafter¹². Both parts and service, as well as aircraft sales, will improve in volume and profitability. Textron's subsidiary Bell is a direct beneficiary of these trends, and has a joint venture with Boeing for the successful V-22 Osprey project that will provide roughly 190 units between 2009 and 2014². With 36 units already in service and 35 to be delivered in 2010, how Textron and companies manage their backlogs will dictate success or failure in the coming years. If Bell can speed up production it will likely become a dominant market player and be a more profitable segment than it already is.

Competitive Environment of the Defense and Aerospace-Defense Industries.

Larger companies than Textron, such as Boeing and UTX with more than 40 billion in market capitalization, are key players in the industry through their subsidiaries that directly compete with Textron's Bell segment, as outlined below.

Figure 4: Bell Competitors Analysis

| Sales | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Bell | 2,348 | 2,254 | 2,881 | 2,347 | 2,581 | 2,827 |
| Boeing/Military Aircraft | 10,763 | 11,394 | 11,444 | 14,142 | 13,740 | 13,492 |
| UTX/Sikorsky | 2,184 | 2,506 | 2,802 | 3,230 | 4,789 | 5,368 |
| BAS Systems/International | n/a | n/a | 3,138 | 3,428 | 3,359 | 3,333 |
| LMT/Aeronautics | 10,206 | 11,785 | 11,672 | 12,188 | 12,303 | 11,473 |
| Revenue Growth YOY | | | | | | |
| Bell | | -4% | 28% | -19% | 10% | 10% |
| Boeing/Military Aircraft | | 6% | 0% | 24% | -3% | -2% |
| UTX/Sikorsky | | 15% | 12% | 15% | 48% | 12% |
| BAS Systems/International | | n/a | n/a | 9% | -2% | -1% |
| LMT/Aeronautics | | 15% | -1% | 4% | 1% | -7% |

Sources: Companies' financials

Industrials - Transportation Equipment (3% for TXT through Kautex)

As a manufacturer of a new generation of fuel systems, Kautex is particularly vulnerable and subject to the trends in auto sales that contracted 15.83% (Figure 5) in North America, but is believed to be the bottom of the downfall that starts slow but steady growth. Eastern Europe fared differently as a gas and oil exporter who benefited from the highest ever energy prices during the summer of 2008, especially Russia with growth of more than 18% (Figure 5). As the US was experiencing a contraction, Russia was experiencing growth. We equate this to not only the current recession, but also the price oil. In mid 2008 we saw oil prices almost reach \$140 a barrel. As the world's third largest owner of oil we would expect Russia to benefit as reflected in the growth of their car sales. Conversely we would expect the US to be at a disadvantage, as reflected by their growth in car sales. Assuming this holds true, for auto sales to improve oil prices would have to come down. However, in the later half of 2008 and beginning of 2009 we saw large drops in oil prices, reflecting the global economic downturn. However, Russia and the U.S. both saw large contractions in auto sales. This tells us that perhaps international sales may still be driven by oil prices, but the U.S. auto-market will only benefit once the U.S. economy recovers; specifically with improved lending and consumer confidence. We expect U.S. auto sales to improve on a much smaller basis by the end of 2010. Finally, we believe U.S. auto sales will lag the international market for auto sales, hence, when we see a rebound in these numbers we can expect a rebound in the U.S. market.

Figure 5: International Car Sales Analysis

| International Car Sales Outlook (in millions) | | | | | |
|---|-------|-------|---------|-------|---------|
| | 2007 | 2008 | Growth | 2009f | Growth |
| Total Car Sales | 54.92 | 52.17 | -5.01% | 48.63 | -6.79% |
| North America | 18.83 | 15.85 | -15.83% | 12.47 | -21.32% |
| Canada | 1.65 | 1.64 | -0.61% | 1.45 | -11.59% |
| United States | 16.09 | 13.19 | -18.02% | 10.20 | -22.67% |
| Mexico | 1.09 | 1.02 | -6.42% | 0.82 | -19.61% |
| Western Europe | 14.75 | 13.54 | -8.20% | 12.93 | -4.51% |
| Germany | 3.15 | 3.09 | -1.90% | 3.71 | 20.06% |
| Eastern Europe | 3.58 | 4.01 | 12.01% | 3.29 | -17.96% |
| Russia | 2.31 | 2.73 | 18.18% | 2.05 | -24.91% |
| Asia | 14.42 | 15.07 | 4.51% | 16.30 | 8.16% |
| China | 5.15 | 5.04 | -2.14% | 6.80 | 34.92% |
| India | 1.18 | 1.20 | 1.69% | 1.38 | 15.00% |
| South America | 3.34 | 3.70 | 10.78% | 3.64 | -1.62% |
| Brazil | 1.98 | 2.19 | 10.61% | 2.34 | 6.85% |

Sources: Sales numbers from Scotiabank Group, growth rates student analysis

Another indicator of new car sales growth will be the status of the used car sales market. Much like new business jet sales and used business jet sales, used car sales act as a precursor to new car sales. When the onslaught of the recession occurred we saw used car sales prices drop dramatically, however, more recently we have seen a rebound in these prices and stabilization. This reflects consumer propensity and willingness to spend on used cars, and if this consumer confidence continues to grow we expect that the growth in used car sales will shortly turn into new car sales growth.

Kautex is a large player in the auto world with their new generation, plastic fuel tank system. As part of eco-friendly initiatives, plastic fuel tank systems are becoming a popular replacement for heavier steel fuel ones. Plastic fuel tanks are safer, more structurally stable, efficient, cleaner and less permeable because there aren't any welded edges that would allow leakage. Currently, Kautex is one of the largest players in this arena and they provide most of the more prominent car manufacturers with these systems. Furthermore, pro-environment legislation, such as Selective Catalytic Reduction, provides incentive to auto manufacturers and Kautex is properly aligned to benefit from these regulations.

A final indicator of growth in Textron's large industrial segment will be new home sales and new home production. Greenlee, which manufactures power tools, and more prominently, tools for wire and cable installation, will be the main component that will be affected by these indicators. When the real estate bubble and the credit markets took a large hit in 2008 Greenlee was significantly affected. We expect this particular sub-sector to lag the rebound of the general economy. As a result, we are uncertain of the particular growth in this line. Though we have seen some growth in new homes, we are not certain that it will be sustained.

Financial Analysis

Earnings

Earnings, Revenues increased 13% or \$1.6 billion over 2007. Additional revenues were attributed to the acquisition of AAI which is now a subsidiary of Textron Systems. Revenues were partially offset by a decrease in profits from the commercial financing segment of Textron which saw a provision for loan losses of \$201 million in 2008. The winding down of the commercial financing segment should be reflected in better expectations and performance going forward.

Revenues at Cessna increased by \$662 million in 2008. This is mostly attributable to higher volume of \$341 million, higher pricing \$252 million and a newly acquired business which contributed \$69 million. Since the beginning of the current economic downturn we've seen a decrease in the amount of new business jet orders and cancellations in backlogs. This, matched with high availability of used business jets does not bode well

for Cessna. With corporations achieving revenues mainly by cost cutting, we can only expect this trend to continue. Cessna has already cut production for 2009 and has already decreased employees by 750.¹³

Bell has also seen an increase in revenues as a result of higher volume, increased pricing, and the acquisition of a new business. The volume increase is mostly due to the department of defenses' new budget which calls for more deliveries of the V-22 and H-1 helicopters. Furthermore, segment profit had a large jump from \$144 million in 2007 to \$278 million in 2008 (an increase in profit margins from 6% to 10%)¹⁴. Historically, Bell has increased segment profit through increased pricing models above the rate of inflation as well as cost cutting. In 2006 and 2007 they were able to cut costs on research and development, and in 2008 efficiency and effectiveness of costs associated with production provided for better margins. While revenues have increased rather modestly for Bell, the recent jump in segment profit provides a potential for higher earnings growth.

Textron systems saw a major jump in revenues from \$1,334 million to \$2,116 million.¹⁵ This jump is attributable to the acquisition of AAI in 2007 and their contribution of \$701 million to revenues in 2008. The increase in revenue derived from newly acquired business is a trend within Textron systems; in 2007 revenues increased \$273 million as a result of newly acquired businesses. This becomes an issue when Textron is not able to increase revenues without acquiring new businesses. However, with the recent acquisition of AAI and the current focus of the defense budget on unmanned aircraft, we expect earnings to see growth in the future, although not at the same level as from 2007 to 2008.

Industrials saw very little growth in revenues and substantial decreases in segment profit and profit margin. This decrease in profit margin and slow growth in revenues is attributed to the current economic situation and the deterioration of both the automotive industry and real estate market. Kautex, Greenlee, and Jacobsen saw the largest decreases, as we've seen the drastic cuts in new production of automobiles and new homes. The decrease in segment profit from \$173 million to \$67 million attributed to lower volume, was further affected by the increase in inflation above pricing levels. We expect industrials to rebound with the real estate and automotive markets. Historically, when these markets perform well so does Textron's industrial sector. Going forward, we expect further deterioration in the automotive industry and weak performance in new home production. As a result we don't expect industrials to see strong revenue growth in the coming year.

Cash Flow

The summation of both the financing and manufacturing group cash flows results in a decrease of cash flows for a consolidated total for fiscal year 2008. While on average Textron has been able to maintain manufacturing operating cash flows, net cash has recently dropped as a result of required capital contributions to the financing portion of Textron. The capital contribution was necessary as a result of a contractual obligation between the two groups and resulted in a \$625 million cash contribution to the financing group. Their situation arose because of required leverage ratios instituted by Textron Financial and the previous and current closing of the commercial lending portion of the group. This contribution provided necessary liquidity, but offset cash provided by the financing segments operations in 2008.

While cash provided by consolidated operating activities decreased, cash provided by investing activities increased. This increase is attributable to the decrease in cash used for acquisitions, compared to 2007 & 2006 when Textron saw outflows of \$1.1 billion and \$502 million respectively. Capital expenditures for Textron consisted solely of research and development, while a portion of their total R&D is funded by government contracts. In both 2006 and 2007 Textron had enough cash from operations to cover capital expenditures for the year. In 2008 Capital expenditures were \$542 million while cash provided by operating activities was \$393 million dollars, a large reverse from years past.¹⁶ An ongoing concern will be whether or not this is a trend which will continue. Furthermore, the Department of Defense budget has stated that they will be spending less spending on R&D. This mixed with the fact that products generated from R&D often don't see profitable return until years down the road could provide a detrimental factor to future cash flows as well as profitability alike. Going forward we expect capital expenditures to decrease due to, expected production cuts, recent cancellations of the Citation Columbus, and less expected procurement spending from the government.

Finally, there was a huge increase in cash used by financing activities as a result of the Financing group requiring funding and necessary liquidity to wind down commercial lending. In attempts to acquire liquidity, Textron maintained their principal and retirements of long-term debt, and decreased the amount of borrowing as a result of the expectations of write-offs from the financing group and even lower expected collections on receivables. The issue with the winding down of the financing segment is that with continued pouring of cash into the segment to meet liquidity and retirement requirements and little or no return expected, means that the

finance segment is essentially a money pit. However, they have successfully wound down the commercial lending segment, and the associated risk has decreased. Going forward we expect cash requirements by the financing segment to decrease and we expect to see moderate returns from this segment. Further cash use by financing is represented by \$229 million in share repurchase and \$130 million more in dividend payments.

Balance Sheet & Financing

Textron's balance sheet reflects a semi-strong company. Their current ratio is pegged at 1.22, however, recent increases in both accounts payable and accrued liabilities both require attention and examination going forward. If not controlled these two account classes could cause issues for Textron as the finance group continues to be deleveraged.

In spite of the current economic environment, Textron has managed to stay away from becoming too highly leveraged. They have managed to meet current and long-term liability requirements through cash provided through operating activities as well as cash provided by the issuing of short-term notes and paper. In doing this they have been able to stay away from issuing new debt that would require large repayments. They have also positioned themselves well. When the market recovers and desired performance is achieved in the financing group, the current issuance of short-term debt will mean that there won't be large and troublesome balances in long-term liabilities, that would affect the performance of the stock and the way debt is viewed.

Finally, inventories have increased as a result of the decrease of new orders and increase in cancellations in orders at Cessna since the start of this economic downturn. Continued decline of the economy and desire for business jets could adversely affect the amount of inventories as well as inventory turnover. However, Textron has already cut production levels to limit growth in inventories.

Investment Risks

- Given the uncertainty in the economy, Textron's capital may not be sufficient to meet their liquidity needs. Their lowered credit rating may also affect their ability to access the capital markets and increase funding costs.
- Complications may arise when exiting portions of Textron Financial Corporation.
- The well being of Textron's suppliers and customers could affect their results of operations
- Textron derives a large portion of its revenues from the US Government. Any cancellations of orders from the Government or changes in their budgets could adversely affect the company. Overruns on cost estimates could also adversely affect the company or future business.
- Delays in product delivery schedules, cancellations of orders, or decreases in demand could all affect Textron's financial results.
- Developing new products and technologies entails significant risks and uncertainties for the company.
- In the event that Textron makes acquisitions, significant risks are involved.
- Currency, labor costs, raw material price and interest rate fluctuations may adversely affect Textron's operating results.

Appendix

Figure 5: Income Statement

\$ in millions

Source: Company Documents, Student Estimates

Consolidated Statements of Income - Textron Inc

(Dollar in millions)

| | Historical | | | Forecast | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Revenue | | | | | | | | |
| Sales | \$ 14,246.00 | \$ 12,615.00 | \$ 10,973.00 | \$ 11,610.53 | \$ 12,285.10 | \$ 12,998.87 | \$ 13,754.10 | \$ 14,553.22 |
| Cost of Sales | (10,757.00) | (9,267.00) | (8,145.00) | (8,638.11) | (9,139.98) | (9,671.02) | (10,232.90) | (10,827.43) |
| Gross Profit | 3,489.00 | 3,348.00 | 2,828.00 | 2,972.42 | 3,145.12 | 3,327.85 | 3,521.20 | 3,725.78 |
| Expenses | | | | | | | | |
| Marketing, Selling, & Administrative | 354.00 | 506.00 | 389.00 | 388.61 | 411.19 | 435.08 | 460.35 | 487.10 |
| Research and Development | 980.00 | 814.00 | 786.00 | 793.18 | 839.27 | 888.03 | 939.63 | 994.22 |
| Depreciation | 305.00 | 259.00 | 232.00 | 244.14 | 258.33 | 273.34 | 289.22 | 306.02 |
| Special Charges | 526.00 | - | - | - | - | - | - | - |
| Provision for losses on Finance receivables | 234.00 | 33.00 | 26.00 | 82.86 | 87.68 | 92.77 | 98.16 | 103.87 |
| Interest Expense, net | 432.00 | 484.00 | 438.00 | 525.96 | 556.52 | 588.85 | 623.06 | 659.26 |
| Total Expenses | (2,831.00) | (2,096.00) | (1,871.00) | (2,034.76) | (2,152.98) | (2,278.07) | (2,410.42) | (2,550.47) |
| Income From Continuing Operations Before Taxes | 658.00 | 1,252.00 | 957.00 | 937.66 | 992.14 | 1,049.79 | 1,110.78 | 1,175.32 |
| Income Taxes | (314.00) | (373.00) | (264.00) | (258.67) | (273.69) | (289.60) | (306.42) | (324.22) |
| Income from Continuing Operations | 344.00 | 879.00 | 693.00 | 679.00 | 718.45 | 760.19 | 804.36 | 851.09 |
| Income(loss) from discontinued operations, net of income taxes | 142.00 | 38.00 | (92.00) | | | | | |
| Net Income | 486.00 | 917.00 | 601.00 | 679.00 | 718.45 | 760.19 | 804.36 | 851.09 |
| Earnings Per Share - basic | | | | | | | | |
| Income Before Cumulative Effect of a Change in Acct. Principle | 1.40 | 3.52 | 2.72 | 2.66 | 2.82 | 2.98 | 3.15 | 3.34 |
| Cumulative Effect of a Change in Accounting Principle | - | - | - | - | - | - | - | - |
| Net Income | 1.40 | 3.52 | 2.72 | 2.66 | 2.82 | 2.98 | 3.15 | 3.34 |
| Earnings Per Share - diluted | | | | | | | | |
| Income Before Cumulative Effect of a Change in Acct. Principle | 1.38 | 3.45 | 2.66 | 2.61 | 2.76 | 2.92 | 3.09 | 3.27 |
| Cumulative Effect of a Change in Accounting Principle | - | - | - | - | - | - | - | - |
| Net Income | 1.38 | 3.45 | 2.66 | 2.61 | 2.76 | 2.92 | 3.09 | 3.27 |
| Weighted Average Shares Outstanding - basic | 245.69 | 249.79 | 255.10 | 255.10 | 255.10 | 255.10 | 255.10 | 255.10 |
| Weighted Average Shares Outstanding - diluted | 249.83 | 254.83 | 260.44 | 260.44 | 260.44 | 260.44 | 260.44 | 260.44 |
| Year End Shares Outstanding | 242.04 | 250.10 | 251.19 | 251.19 | 251.19 | 251.19 | 251.19 | 251.19 |
| Dividends/Common Share | 0.92 | 0.85 | 0.78 | 0.78 | 0.83 | 0.88 | 0.93 | 0.98 |

Figure 6: Balance Sheet

\$ in millions

Source: Company Documents, Student Estimates

| Balance Sheet - Textron Inc | | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| (Dollars in Millions) | | | | | | | | |
| | Historical | | | Forecast | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Current Assets | | | | | | | | |
| Cash and Cash Equivalents | \$ 780.00 | \$ 531.00 | \$ 547.00 | \$ 951.75 | \$ 1,254.51 | \$ 1,592.65 | \$ 1,969.52 | \$ 2,388.78 |
| Accounts Receivable net | 964.00 | 958.00 | 924.00 | 884.93 | 936.34 | 990.75 | 1,048.31 | 1,109.22 |
| Inventories | 2,069.00 | 2,593.00 | 3,159.00 | 2,383.45 | 2,521.92 | 2,668.45 | 2,823.48 | 2,987.53 |
| Other Current Assets | 448.00 | 540.00 | 592.00 | 484.50 | 512.65 | 542.44 | 573.95 | 607.30 |
| Assets of discontinued operations | 73.00 | 607.00 | 36.00 | 221.75 | 234.63 | 248.27 | 262.69 | 277.95 |
| Total Current Assets | 4,334.00 | 5,229.00 | 5,258.00 | 4,926.38 | 5,460.07 | 6,042.55 | 6,677.96 | 7,370.77 |
| Other Assets | | | | | | | | |
| Finance receivables held for investments | 8,217.00 | 8,514.00 | 6,724.00 | 7,336.85 | 7,763.12 | 8,214.16 | 8,691.41 | 9,196.38 |
| Finance receivables held for Sale | - | - | 1,658.00 | 450.42 | 476.59 | 504.28 | 533.58 | 564.58 |
| Goodwill | 1,426.00 | 2,085.00 | 1,865.00 | 1,649.27 | 1,745.09 | 1,846.48 | 1,953.76 | 2,067.28 |
| Other Assets | 1,800.00 | 2,245.00 | 2,400.00 | 2,400.00 | 2,400.00 | 2,400.00 | 2,400.00 | 2,400.00 |
| | 11,443.00 | 12,844.00 | 12,647.00 | 11,836.55 | 12,384.81 | 12,964.93 | 13,578.75 | 14,228.24 |
| Property and Equipment | 3,920.00 | 4,163.00 | 4,594.00 | 3,907.80 | 4,134.84 | 4,375.08 | 4,629.27 | 4,898.23 |
| Less: Accumulated depreciation and amortization | (2,147.00) | (2,245.00) | (2,479.00) | (2,118.80) | (2,241.91) | (2,372.16) | (2,509.98) | (2,655.81) |
| Net Property and Equipment | 1,773.00 | 1,918.00 | 2,115.00 | 1,789.00 | 1,892.94 | 2,002.92 | 2,119.29 | 2,242.42 |
| Total Assets | 17,550.00 | 19,991.00 | 20,020.00 | 18,551.92 | 19,737.81 | 21,010.39 | 22,376.00 | 23,841.43 |
| Liabilities & Shareholders' Equity | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts Payable | 814.00 | 840.00 | 1,117.00 | 848.26 | 897.54 | 949.69 | 1,004.86 | 1,063.25 |
| Short/Current Long Term Debt | 80.00 | 355.00 | 876.00 | 1,074.51 | 1,379.76 | 1,720.54 | 2,100.21 | 2,522.42 |
| Accrued Liabilities | 1,958.00 | 2,615.00 | 2,622.00 | 375.11 | 396.90 | 419.96 | 444.36 | 470.18 |
| Liabilities from discounted operations | 142.00 | 467.00 | 151.00 | 2,205.16 | 2,333.28 | 2,468.84 | 2,612.28 | 2,764.06 |
| Accrued Rebates | - | - | - | 234.38 | 247.99 | 262.40 | 277.65 | 293.78 |
| Income Taxes Payable | - | - | - | - | - | - | - | - |
| Sales Rebates and Discounts | - | - | - | - | - | - | - | - |
| Other Current Liabilities | - | - | - | - | - | - | - | - |
| Total Current Liabilities | 2,994.00 | 4,277.00 | 4,766.00 | 4,737.41 | 5,255.48 | 5,821.43 | 6,439.36 | 7,113.68 |
| Other Liabilities | | | | | | | | |
| Long Term Debt | 1,720.00 | 1,791.00 | 1,693.00 | 1,616.04 | 1,709.93 | 1,809.28 | 1,914.40 | 2,025.63 |
| All post employment obligations | 6,862.00 | 7,311.00 | 7,388.00 | 6,670.26 | 7,057.80 | 7,467.86 | 7,901.75 | 8,360.84 |
| Defined benefit Pension | 497.00 | 472.00 | 337.00 | 411.65 | 435.57 | 460.87 | 487.65 | 515.98 |
| all other long term liabilities | 499.00 | 462.00 | 540.00 | 464.44 | 491.42 | 519.97 | 550.18 | 582.15 |
| Other Noncurrent Liabilities | 2,329.00 | 2,171.00 | 2,930.00 | 2,283.47 | 2,416.14 | 2,556.52 | 2,705.05 | 2,862.21 |
| Total Other Liabilities | 11,907.00 | 12,207.00 | 12,888.00 | 11,445.86 | 12,110.86 | 12,814.50 | 13,559.03 | 14,346.80 |
| Total Liabilities | 14,901.00 | 16,484.00 | 17,654.00 | 16,183.26 | 17,366.34 | 18,635.94 | 19,998.39 | 21,460.48 |
| Shareholders' Equity | | | | | | | | |
| Common Stock | 26.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 | 32.00 |
| Capital Surplus | 1,786.00 | 1,193.00 | 1,229.00 | 1,229.00 | 1,229.00 | 1,229.00 | 1,229.00 | 1,229.00 |
| Retained Earnings | 6,211.00 | 2,766.00 | 3,025.00 | 3,027.66 | 3,030.48 | 3,033.46 | 3,036.61 | 3,039.95 |
| Accumulated Other Comprehensive loss | (644.00) | (400.00) | (1,422.00) | (1,422.00) | (1,422.00) | (1,422.00) | (1,422.00) | (1,422.00) |
| \$2.08 Cumulative Convertible Preferred Stock | 4.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| 1.40 Convertible Preferred Dividend Stock | 6.00 | - | - | - | - | - | - | - |
| | 7,389.00 | 3,593.00 | 2,866.00 | 2,868.66 | 2,871.48 | 2,874.46 | 2,877.61 | 2,880.95 |
| Less Cost of Common Stock in Treasury | 4,740.00 | 86.00 | 500.00 | 500.00 | 500.00 | 500.00 | 500.00 | 500.00 |
| | 2,649.00 | 3,507.00 | 2,366.00 | 2,368.66 | 2,371.48 | 2,374.46 | 2,377.61 | 2,380.95 |
| Total Liabilities & Shareholders' Equity | \$ 17,550.00 | \$ 19,991.00 | \$ 20,020.00 | \$ 18,551.92 | \$ 19,737.81 | \$ 21,010.39 | \$ 22,376.00 | \$ 23,841.43 |

Figure 7: Free Cash Flow

\$ in millions

Source: Company Documents, Student Estimates

| Free Cash Flow - Textron Inc | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Historical | | | Forecast | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Net income available to common shareholders | \$ 1.40 | \$ 3.52 | \$ 2.72 | \$ 2.66 | \$ 2.82 | \$ 2.98 | \$ 3.15 | \$ 3.34 |
| Plus: Net noncash charges | \$ 305.00 | \$ 259.00 | \$ 232.00 | \$ 244.14 | \$ 258.33 | \$ 273.34 | \$ 289.22 | \$ 306.02 |
| Plus: Interest expense x (1 - tax rate) | \$ 551.17 | \$ 617.52 | \$ 558.83 | \$ 671.05 | \$ 710.04 | \$ 751.29 | \$ 794.94 | \$ 841.13 |
| Less: Investment in Fixed Capital | \$ - | \$ 145.00 | \$ 197.00 | \$ (326.00) | \$ 103.94 | \$ 109.98 | \$ 116.37 | \$ 123.13 |
| Less: Investment in Working Capital | \$ (477.00) | \$ (1,144.00) | \$ (1,015.00) | \$ (1,869.46) | \$ (2,220.90) | \$ (2,610.55) | \$ (3,041.92) | \$ (3,518.85) |
| Free Cash Flow to the Firm | \$ 1,334.57 | \$ 1,879.04 | \$ 1,611.54 | \$ 3,113.31 | \$ 3,088.14 | \$ 3,528.17 | \$ 4,012.87 | \$ 4,546.20 |

| Value of the Firm - Textron Inc | | | | | | |
|---|---|-------------|-------------|-------------|-------------|--------------|
| (in millions) | 0 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Free Cash Flow | | \$ 3,113.31 | \$ 3,088.14 | \$ 3,528.17 | \$ 4,012.87 | \$ 4,546.20 |
| Terminal Value | | | | | | \$ 35,233.86 |
| Total Cash flow | | \$ 3,113.31 | \$ 3,088.14 | \$ 3,528.17 | \$ 4,012.87 | \$ 39,780.06 |
| Present Value of Cash Flows | | | \$12,296.94 | | | |
| Add in Initial Year Cash and Marketable Securities | | \$ 780.00 | | | | |
| Enterprise Value | | | \$13,076.94 | | | |
| Less Value of Firm's Debt | | \$ 4,315.00 | | | | |
| Equity Value | | | \$8,761.94 | | | |
| Shares Outstanding (millions) | | 255.10 | | | | |
| Share Value | | \$ 34.35 | | | | |
| Share Value Plus Expected 12 Month Price Appreciation | | \$ 40.14 | | | | |
| Less Projected Dividend | | 0.79 | | | | |
| 12 Month Price Target | | \$ 39.35 | | | | |

Figure 7.1: Revenue Growth Rate Forecast

Source: Company Documents, Department of Defense Budgets, Student Estimates

To obtain a growth rate by historical averages for a conglomerate as diverse as Textron is insufficient. To produce our growth rate we broke down Textron not only into its five main operating segments, but even further by product categories. We then forecasted the growth rate for each product category for 2009 to 2013 based upon a number of different factors explained in Figure 7.2. A weighted average growth rate was then taken for each year based upon the percent of revenue that each product category has historically comprised within the operating unit. A modified average was then taken, using ¼ of the 2009 growth rate to account for the three quarters that have already past, and fully taking into account years 2010 to 2013. This gave us our growth rate for each individual operating unit.

Another weighted average was then taken of these operating unit averages based upon the percent of revenue that each operating unit comprises of within Textron as a whole. This gave us our final revenue growth rate of 5.81%, which we use in our valuations.

| Wiegthed Average Sales Growth | | | | | | | | |
|-------------------------------|--------------------------------|--------|--------|--------|--------|--------|------------|--------|
| | | AVG | 3.65% | | | | | |
| | | CAGR | 5.81% | | | | | |
| % Revenue | Business Brand | 2009 | 2010 | 2011 | 2012 | 2013 | CAGR (4yr) | Avg |
| 31% | Cessna | -35.4% | 7.2% | 7.7% | 8.5% | 8.5% | 8.0% | 4.6% |
| 60% | <i>Citations</i> | -50% | 8% | 9% | 10% | 10% | | |
| 7% | <i>Caravan</i> | -50% | 9% | 8% | 8% | 8% | | |
| 5% | <i>Single Eng. Piston</i> | -50% | 9% | 8% | 8% | 8% | | |
| 19% | <i>Parts</i> | 6.0% | 9% | 9% | 10% | 10% | | |
| 7% | <i>Citation Shares</i> | -9.5% | 10% | 15% | 15% | 15% | | |
| 2% | <i>Used</i> | 7.0% | 4% | 3% | 3% | 3% | | |
| - | Wiegthed Average | -35.4% | 7.2% | 7.7% | 8.5% | 8.5% | | |
| | Value of dollar invested | 1.00 | 1.07 | 1.16 | 1.25 | 1.36 | | |
| 27% | Bell | -3.7% | 0.1% | 3.8% | 4.3% | 4.3% | 3.1% | 2.3% |
| 26% | <i>Commercial</i> | -6% | 2% | 5% | 5% | 5% | | |
| 36% | <i>Military</i> | -2% | -5% | 3% | 5% | 5% | | |
| 38% | <i>Customer Support</i> | -4% | -2% | 4% | 5% | 5% | | |
| - | Wiegthed Average | -3.7% | 0.1% | 3.8% | 4.3% | 4.3% | | |
| | Value of dollar invested | 1.00 | 1.00 | 1.04 | 1.08 | 1.13 | | |
| 19% | Textron Systems | -3.4% | 3.1% | 7.1% | 11.9% | 11.9% | 8.4% | 6.6% |
| 66% | <i>Prec. Engage. Syst.</i> | -3% | 5% | 10% | 18% | 18% | | |
| 27% | <i>Marine & Land Syst.</i> | -4% | 2% | 5% | 5% | 5% | | |
| 7% | <i>Aircraft Subsystems</i> | -5% | -4% | 2% | 2% | 2% | | |
| - | Wiegthed Average | -3.4% | 3.1% | 7.1% | 11.9% | 11.9% | | |
| | Value of dollar invested | 1.00 | 1.03 | 1.10 | 1.24 | 1.38 | | |
| 19% | Industrial | -31.3% | 1.7% | 5.5% | 8.8% | 11.5% | 6.8% | 3.9% |
| 15% | <i>Greenlee</i> | -17% | 5% | 10% | 15% | 20% | | |
| 17% | <i>E-Z-GO</i> | -20% | 1% | 4% | 7% | 11% | | |
| 9% | <i>Jacobsen</i> | -31% | 2% | 18% | 21% | 9% | | |
| 60% | <i>Kautex</i> | -38% | 1% | 3% | 6% | 10% | | |
| 0% | Wiegthed Average | -31.3% | 1.7% | 5.5% | 8.8% | 11.5% | | |
| | Value of dollar invested | 1.00 | 1.02 | 1.07 | 1.17 | 1.30 | | |
| 4% | Finance | -49.0% | -10.0% | -10.0% | -10.0% | -10.0% | -10.0% | -10.5% |
| - | Wiegthed Average | -49% | -10% | -10% | -10% | -10% | | |
| | Value of dollar invested | 1.00 | 0.90 | 0.81 | 0.73 | 0.66 | | |
| | Total Textron | -20.5% | 2.8% | 5.4% | 7.3% | 7.9% | 5.8% | 3.6% |

For an explanation of the growth rates of this chart, please refer to Figure 7.2

A
B
C
D
E
F

G
H
I

J
K
L

M
N
O
P

Q

*2009 numbers come from first 3 quarter actuals divided by 0.75 to forecast yearly revenues

*2009 numbers are weighted 25% of other years in the calculation of Business Brand averages

Figure 7.2: Rationale for Revenue Growth Rate Forecast*Source: Company Documents, Department of Defense Budgets, Student Estimates*

Letters correspond to Figure 7.1

Cessna

A-C With the current business jet industry adversely affected by the economic crisis, management has decided to decrease production of new business jets over 2008 levels. Before 2008 Cessna had approximately 16,000 employees, management has already laid off 750 employees in 2008 and is planning on cutting 4,100 more in January of 2009. With reduced employees and corresponding cuts in production, we expect revenues to decrease in 2009 by 50%. However, the cuts in production and revenue will be offset by labor expenses represented in the layoffs. This will provide for a sustained level of segment profit that Cessna has had over the past few years (~16%). Finally, as we have begun to see a leveling off of the used business jet industry, as well as our expectation that corporate profits will return in the second half of 2010, we expect growth in new Citation business jets going forward. This growth will not be the same as pre-2008 levels, but will be slow and moderate as represented by our forward year growth rates.

D Since 2000 Cessna has seen an annual growth rate of 10.7% in their parts and services sector. Our industry evaluation of this sector explains the volume of used business jets available for sale as well as the previous reduction, and expected continual reduction in new business jet orders. As a result we expect the parts and services portion of Cessna to continue its growth, however, we don't expect the same level of growth. Our reasoning is that although parts and services will be needed for used and new business jets alike, we don't expect owners to spend as much as we begin to see stabilization and a decrease in used jets being purchased. In addition we expect owners of business jets to cut spending on unnecessary parts and services that might not be important to the operation of their aircraft. However, following this year of change we do expect growth in this sector to once again increase.

E Citation shares are much like a time share at a vacation spot. The owners of Citation Shares want the use of a private jet, however, they do not want to assume the costs associated with owning a business jet. We expect companies and individuals to continue lowering their costs, so instead of purchasing Citation Shares we plan on these entities using commercial airplanes. Once again with corporate profits and individual wealth increasing in the second half of 2010 we expect a rebound in the purchase of Citation Shares.

F While we have seen an increase in the used business jet industry due to the amount available for sale as well as the depressed prices, we do not expect this trend to continue at the same rate. Although we do expect sales of used business jets to increase in 2009, we don't expect sales to continue at the same rate as in 2009, as we see a U-shaped recovery in the economy. Historically, the performance of the used business jet market has acted as a precursor to the new business jet market, and as we have already begun to see used business jet prices and availability level off, our expectations are represented in our forward year rates.

Bell

G There is a strong correlation between growth in US Air Force spending and growth rates in Bell Military on a five year average. The 2010 US Air Force budget declined -1.9% (compared to a historic growth of 5%), Bell is expected to shrink accordingly. For the following years (2011 – 2013) we expect the US Air Force budget to resume its growth as the economy normalizes and as the US continues its involvement in military affairs abroad, currently Afghanistan.

H Bell's commercial side revenues have grown at about a third than those of the energy and health sectors on a five year average. The severity of the current economic downturn has caused the commercial sector to be the main driver of the 2009 declines. Going forward, as the economy recovers, Bell should resume the 5% growth rate in 2011 as these sectors grow at a 15% phase.

I Customer support growth rates are merely a weighted average of the Military and Commercial growth rates. As these rates increase or decrease in the following years, so will the customer support pertinent to these segments. Naturally, growth rates in the Military sub-segment will have more of an impact on the Customer Support sub-segment rates.

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (E) | Average |
|-------------------------------|-------|-------|--------|--------|--------|--------|----------|---------|
| US Airforce | 91800 | 96000 | 102900 | 105999 | 110700 | 117000 | 115600 | |
| Bell | 2254 | 2881 | 2347 | 2581 | 2827 | 2720 | 2658.8 | |
| US Airforce Budget YOY growth | | 5% | 7% | 3% | 4% | 6% | -1% | 5% |
| Bell YOY Rev growth | | 28% | -19% | 10% | 10% | -4% | -2% | 4% |

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Average |
|---------|-------|-------|-------|-------|-------|----------|---------|
| | 1186 | 1285 | 1410 | 1411 | 931 | 1069 | |
| XLE | 34.97 | 50.31 | 55.92 | 80.37 | 50.15 | 76.10667 | |
| XLV | 30.1 | 32.56 | 33.69 | 34.79 | 27.09 | 38.88 | |
| Bell | 2254 | 2881 | 2347 | 2581 | 2827 | 2720 | |
| | | 8% | 10% | 0% | -34% | 15% | |
| XLE | | 44% | 11% | 44% | -38% | 52% | 23% |
| XLV | | 8% | 3% | 3% | -22% | 44% | 7% |
| Average | | 26% | 7% | 23% | -30% | 48% | 15% |
| Bell | | 28% | -19% | 10% | 10% | -4% | 5% |

Textron Systems

J The Obama administration's FY2010 defense budget will increase the use of Intelligence, Surveillance, and Reconnaissance systems (ISR's) within the military. This will directly benefit the Precision Engagement Systems portion of the Textron Systems business segment. Furthermore, for FY 2010, spending on ISR's represents 10% of the total budget. With the expected withdrawal from Iraq in 2011, we projected the 2011 base budget to be equal to \$453.7 billion, which is the 2010 base budget less GWOT spending of \$130 billion, plus FY 2011 spending of \$50 billion. Despite this decrease in the defense budget, the emphasis on guerrilla warfare calls for an increase in intelligence, which reinforces future revenues of this segment.

K-L Over the past 5 years the base budget for the DoD has grown at an average rate of 6.389%. However, we feel that with the current deficit at \$1.4 trillion and spending yet to come will bring defense budget cuts. We believe that a growth rate of 5% clearly reflects a more modest and economically viable spending rate for the DoD. As a consequence, we expect the growth in these two sections to be sluggish compared to the Precision Engagement Systems section.

Industrials

M Greenlee: We project that revenues of this producer of wire and cable installation systems will not be as weak in 2009 as those of the other Textron industrial companies. We do foresee short-term continued decline in the commercial real estate markets which will hurt the number of new buildings which may require Greenlee's services. However, we expect this to be offset by a rise in demand from existing buildings requiring upgrades to their electrical systems. We believe that the voice/data/video channel markets are going to take off within the next few years due to the overall trend toward technological advancement and digitization of businesses.

N E-Z-GO: Given the current economic conditions, we believe that consumer spending on travel and leisure activities will continue to decrease into 2009, be positive in 2010, and increase exponentially thereafter. We believe that golf course, airport, and resort spending on light transportation vehicles will follow suit.

O Jacobsen: This golf and turf care reporting unit is projected to report a substantial decrease in revenue in 2009. Management believes that in 2011 there will be significant recovery, and by 2012 revenues will return to 2008 levels. Our growth rate is based on this assumption.

P Kautex: This auto parts supplier has historically been the largest contributor of profit for the industrials segment. Management expects decreased revenues in 2009 as the automotive market continues to deteriorate. They are also expecting an average of 7% growth over the following 4 years post 2009. However, we are slightly less optimistic about the automotive recovery as we feel the cash for clunkers program has cannibalized future sales. Our 4 year growth rate post 2009 averages to 4%.

Textron Financial Company

Q The finance arm of Textron is poised for a 49% drop in revenue after, arguably, the most challenging year the company has ever faced. Textron has successfully started to liquidate some of the finance segment's receivables, and is on target to liquidate up to 3.4 billion by the end of the year. With a 95% conversion rate, and if the liquidation goes according to plan in subsequent quarters, the finance arm will keep posting moderate YOY decreases in revenue that we estimate to be 10%.

Figure 8: WACC Calculation

Source: Company Documents, FactSet

| | |
|-------------------------------------|---------------|
| WACC | |
| In Millions | |
| | |
| Inputs: | |
| Market value of outstanding equity: | \$ 5,464.12 |
| | |
| Shares (millions) | 270.1 |
| Price per share | \$ 20.23 |
| | |
| Required return on equity | 13.70% |
| Rf | 3.30% |
| Beta | 1.65 |
| Market Risk Premium | 6.30% |
| | |
| Market value of outstanding debt | 1693 |
| | |
| Required return on debt | 3.00% |
| | |
| Computation of WACC: | |
| Weight of equity | 76.35% |
| Weight of debt | 23.65% |
| Tax rate | 22.00% |
| | |
| WACC | 11.01% |

Figure 9: Sum of the Parts Calculation

Source: Company Documents, 'Reference companies' websites, FactSet

This evaluation aims to find companies that are pure play comparisons to each of Textron's segments, either direct competitors or companies that have been bought or sold recently. The price they traded at divided by their EBIDTA (BV in the case of the Financial Segment) will yield a multiple that serves as a reference to calculate the Enterprise value (EV) for each of Textron's segments.

| Reference Company | Description | | Most Relevant to: |
|----------------------------|---|--------------------|-------------------|
| Vought Aircraft Industries | Manufactures wings, fuselage subassemblies, and other aircraft components | Bought Jul 2009 | Cessna, Bell |
| United Industrial Corp. | Designs, produces, and supports aerospace and defense systems | Bought Dec 2007 | Systems |
| Woodward Governor | Develops actuation systems for aircraft, guided weapons, armored vehicles | Sold Jun 2009 | Systems |
| Honeywell | Aerospace, automation, and transportation. | Current competitor | Industrial |
| Wachovia | Acquired by Wells Fargo | Bought Dec 2007 | Financial |

| Times-Traded Multiple Analysis | | | | | |
|---|----------------------------|-------------------------|-------------------|-------------|-------------------|
| | Vought Aircraft Industries | United Industrial Corp. | Woodward Governor | Honeywell | Wachovia (Q2 '08) |
| Net Income | 93.7 | 40.8 | 29 | 2,792.00 | (664) |
| Revenues | 1,796.6 | 677.5 | 261 | 36,556 | 10,179 |
| Profit Margin | 5.22% | 6.02% | 11.11% | 7.64% | -6.52% |
| EBITDA | 58.67 | 86.45 | 32 | 4.26 | |
| BV | | | | | 39.13 |
| Price paid, sold, or trading at | 580 | 801.9 | 365 | 40.33 | 41.27 |
| Times Traded Multiple (Price/EBIDTA) | 9.89 | 9.28 | 11.41 | 9.47 | 1.05 |

At this point, each of Textron Segment's Profit Margin is compared with that of the relevant company traded. For every 5% percent above or below the relevant company traded, the multiple increases or decreases by 1 unit, respectively

| Textron Calculation of Multiple, EV, and target Share Price | | | | | |
|---|-------------|-------------|-----------------|--------------------|---------------------------------|
| | Cessna | Bell | Textron Systems | Textron Industrial | Textron Financial Company (TFC) |
| Profit | 905 | 278 | 279 | 67 | |
| Revenues | 5,662 | 2,827 | 2,116 | 2,918 | |
| Profit Margin | 15.98% | 9.83% | 13.19% | 2.30% | |
| TXT 2008 EBIDTA \$2,019 | | | | | |
| % of Revenues | 40% | 20% | 15% | 20% | 5% |
| EBITDA | 802 | 401 | 300 | 414 | |
| BV | | | | | 1,079 |
| BV per share | | | | | 4.0 |
| Multiple | 11.9 | 10.0 | 11.3 | 4.0 | 0.3 |
| EBITDA x Multiple | 9,541 | 4,007 | 3,389 | 1,654 | |
| BV x Multiple | | | | | 313 |
| Total Enterprise Value | 18,903 | | | | |
| Debt** | (9,740) | | | | |
| Corp. Overhead | (170) | | | | |
| Total EV | 8,993 | | | | |
| Weighted Average of Multiples | | | | | |
| (EBITDA x Multiple) + (TFC x Multiple) = 18,904 | | | | | |
| Shares | 271 | | | | |
| Target Share Price | \$ 33.19 | | | | |

Sources: Factset, 10-K, Student Research and Estimates

Figure 10: Normalized Price to Earnings Valuation*Source: Value Line*

| Normalized P/E | | | | | | | |
|--|----------------|------|------|------|------|---------|---------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | Average | Current |
| Historical P/E | 13.4 | 15.1 | 16.4 | 19.8 | 22.8 | 17.5 | 49.88 |
| Normalized Multiple | 17.5 | | | | | | |
| 2012 Projected EPS | 2.99 | | | | | | |
| 2012 Projected P/E Target | 52.325 | | | | | | |
| Discounted back 2 years (at cost of equity) | \$35.22 | | | | | | |
| 2010 Projected Target Price | \$35.22 | | | | | | |

*Historical P/E are annual averages provided by ValueLine

Figure 11: Peer Group Construction

Source: Company Documents, FactSet, Mergent Horizon

| Peer Group Construction | | | | | |
|-------------------------|---------------------------------|---------------|--|---------------|--|
| % Revenue | Business Brand | PEER GROUP #1 | | PEER GROUP #2 | |
| 32% | Cessna | Ticker | Company | Ticker | Company |
| 100% | <i>All Product Lines</i> | HON | Honeywell | GD | General Dynamics |
| 0% | | | | | |
| 28% | Bell | Ticker | Company | Ticker | Company |
| 100% | <i>All Product Lines</i> | BA | Boeing | LMT | Lockhead Martin |
| 0% | | | | | |
| 20% | Textron Systems | Ticker | Company | Ticker | Company |
| 66% | <i>Prec. Engage. Syst.</i> | GD | General Dynamics | GY | Gencorp |
| 34% | <i>Marine/Land/Arcrft Syst.</i> | ITT | ITT Corp | UTX | United Tech |
| 0% | | | | | |
| 20% | Industrial | Ticker | Company | Ticker | Company |
| 15% | <i>Greenlee</i> | BDK | The Black & Decker Corporation | SWK | The Stanley Works |
| 17% | <i>E-Z-GO</i> | ACAT | Arctic Cat Inc. | PII | Polaris Industries Inc. Briggs & Stratton Corporation |
| 9% | <i>Jacobsen</i> | TTC | The Toro Company UFP Technologies, Inc. | BGG | Corporation |
| 60% | <i>Kautex</i> | UFPT | (simco auto) | FSYS | Fuel System Solutions |
| 0% | | | | | |

Figure 12: Price to Sales Valuation

Source: Company Documents, FactSet

| | | | | | | | | | | | | | | |
|--------------------------------------|-----------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Historical P/S Peer Groupings | Group #1 | HON | | | BA | | | GD | | | ITT | | | |
| | | Year | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS |
| | | 2004 | 31.2 | 38.5 | 29.2 | 38.0 | 55.5 | 64.9 | 42.5 | 55.0 | 47.2 | 35.5 | 43.4 | 34.3 |
| | | 2005 | 32.7 | 39.5 | 31.7 | 49.5 | 72.4 | 67.6 | 48.8 | 61.1 | 50.8 | 40.2 | 58.1 | 38.7 |
| | | 2006 | 35.2 | 45.8 | 36.7 | 65.9 | 92.1 | 74.9 | 56.7 | 78.0 | 57.9 | 45.3 | 58.7 | 41.2 |
| | | 2007 | 43.1 | 62.3 | 43.0 | 84.6 | 107.8 | 87.2 | 70.6 | 94.6 | 64.8 | 56.3 | 73.4 | 47.0 |
| | 2008 | 23.2 | 63.0 | 50.1 | 36.2 | 88.3 | 89.7 | 47.8 | 95.1 | 72.4 | 34.8 | 69.7 | 62.1 | |
| | Group #1 | BDK | | | ACAT | | | TTC | | | UFPT | | | |
| | | Year | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS |
| | | 2005 | 20.1 | 63.6 | 81.7 | 2.4 | 8.0 | 27.6 | 20.2 | 42.0 | 43.4 | 3.5 | 7.1 | 16.7 |
| | | 2006 | 75.7 | 93.7 | 81.4 | 17.9 | 28.4 | 37.2 | 33.7 | 49.0 | 39.1 | 2.2 | 6.4 | 16.6 |
| | | 2007 | 66.0 | 94.9 | 88.0 | 15.5 | 24.2 | 39.6 | 36.0 | 52.6 | 42.5 | 2.2 | 8.0 | 18.9 |
| | | 2008 | 69.2 | 97.0 | 99.4 | 6.8 | 20.8 | 34.3 | 42.0 | 63.7 | 45.6 | 4.4 | 8.8 | 17.4 |
| | 2009 | 32.3 | 74.2 | 105.2 | 2.4 | 12.2 | 35.6 | 27.2 | 59.2 | 48.4 | 3.9 | 14.6 | 20.0 | |
| | Group #2 | GD | | | LMT | | | GY | | | UTX | | | |
| Year | | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | |
| 2005 | | 35.3 | 68.8 | 82.7 | 57.4 | 87.1 | 112.5 | 1.8 | 8.5 | 12.9 | 37.4 | 68.3 | 57.9 | |
| 2006 | | 48.8 | 61.1 | 50.8 | 52.5 | 65.5 | 83.5 | 16.8 | 21.3 | 10.8 | 48.4 | 58.9 | 41.4 | |
| 2007 | | 56.7 | 78.0 | 57.9 | 62.5 | 93.2 | 90.5 | 12.0 | 20.8 | 11.9 | 54.2 | 67.5 | 46.9 | |
| 2008 | | 70.6 | 94.6 | 64.8 | 88.9 | 113.7 | 100.0 | 10.6 | 15.3 | 12.7 | 61.9 | 82.5 | 54.5 | |
| 2009 | 47.8 | 95.1 | 72.4 | 67.4 | 120.3 | 105.1 | 1.8 | 12.4 | 13.1 | 41.8 | 77.1 | 62.8 | | |
| Group #2 | SWK | | | PII | | | BGG | | | FSYS | | | | |
| | Year | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | |
| | 2005 | 22.6 | 51.2 | 48.6 | 14.5 | 49.7 | 50.1 | 11.1 | 23.3 | 39.5 | 9.8 | 47.8 | 22.8 | |
| | 2006 | 41.5 | 51.8 | 39.1 | 43.8 | 74.2 | 44.5 | 30.8 | 44.5 | 46.2 | 5.4 | 16.6 | 12.3 | |
| | 2007 | 41.6 | 54.6 | 46.6 | 34.2 | 54.9 | 42.1 | 30.0 | 40.4 | 53.5 | 10.0 | 25.0 | 15.0 | |
| | 2008 | 47.0 | 64.3 | 51.5 | 42.4 | 58.8 | 46.7 | 24.3 | 33.1 | 42.5 | 12.6 | 25.1 | 15.5 | |
| 2009 | 24.2 | 52.2 | 56.3 | 19.5 | 54.3 | 59.0 | 12.7 | 33.4 | 45.1 | 9.8 | 61.2 | 24.3 | | |
| Peer Group#1 | | Peer Group#2 | | Peer Group#1 | | Peer Group#2 | | Year | LOW | HIGH | SPS | LOW | HIGH | SPS |
| Tic | Wgt | Tic | Wgt | Tic | Wgt | Tic | Wgt | | | | | | | |
| HON | 0.32 | BDK | 0.03 | GD | 0.32 | SWK | 0.03 | 2005 | 30.1 | 41.8 | 42.3 | 32.7 | 61.6 | 70.2 |
| BA | 0.28 | ACAT | 0.03 | LMT | 0.28 | PII | 0.03 | 2006 | 37.2 | 50.4 | 44.8 | 39.8 | 51.6 | 48.9 |
| GD | 0.13 | TTC | 0.02 | GY | 0.13 | BGG | 0.02 | 2007 | 43.7 | 60.3 | 50.2 | 45.1 | 65.6 | 54.2 |
| ITT | 0.07 | UFPT | 0.12 | UTX | 0.07 | FSYS | 0.12 | 2008 | 54.2 | 73.4 | 57.0 | 57.9 | 77.3 | 59.9 |
| | | | | | | | | 2009 | 28.2 | 67.6 | 62.6 | 40.0 | 82.4 | 66.0 |

| | | | | | | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-----------------------------|------------|---------------------|---------------------|--------------------------------|-------------|--|------------|-------------|
| Historical P/S Analysis | TXT | | | PEER GROUP#1 | | | PEER GROUP#2 | | | | | |
| | Year | LOW | HIGH | SPS | LOW | HIGH | SPS | LOW | HIGH | SPS | | |
| | 2005 | 32.6 | 40.4 | 37.7 | 30.1 | 41.8 | 42.3 | 32.7 | 61.6 | 70.2 | | |
| | 2006 | 37.8 | 49.5 | 42.6 | 37.2 | 50.4 | 44.8 | 39.8 | 51.6 | 48.9 | | |
| | 2007 | 43.6 | 74.4 | 48.9 | 43.7 | 60.3 | 50.2 | 45.1 | 65.6 | 54.2 | | |
| | 2008 | 10.1 | 70.1 | 56.7 | 54.2 | 73.4 | 57.0 | 57.9 | 77.3 | 59.9 | | |
| | 2009 | 3.6 | 21.0 | 44.2 | 28.2 | 67.6 | 62.6 | 40.0 | 82.4 | 66.0 | | |
| | TXT | | | PEER GROUP#1 | | PEER GROUP#2 | | Ind. Composite | | TXT RelativePS | | |
| | Wgt. | Year | Low | High | Low | High | Low | High | Low | High | Low | High |
| | 0.2 | 2005 | 0.9 | 1.1 | 0.7 | 1.0 | 0.5 | 0.9 | 0.7 | 1.0 | 1.3 | 1.1 |
| 0.2 | 2006 | 0.9 | 1.2 | 0.8 | 1.1 | 0.8 | 1.1 | 0.8 | 1.1 | 1.1 | 1.0 | |
| 0.2 | 2007 | 0.9 | 1.5 | 0.9 | 1.2 | 0.8 | 1.2 | 0.9 | 1.3 | 1.0 | 1.2 | |
| 0.2 | 2008 | 0.2 | 1.2 | 1.0 | 1.3 | 1.0 | 1.3 | 0.7 | 1.3 | 0.3 | 1.0 | |
| 0.2 | 2009 | 0.1 | 0.5 | 0.5 | 1.1 | 0.6 | 1.2 | 0.4 | 0.9 | 0.2 | 0.5 | |
| 1 | W/A | 0.6 | 1.1 | 0.8 | 1.1 | 0.7 | 1.1 | 0.7 | 1.1 | 0.8 | 1.0 | |
| Using Historical Average | | | | Historical Hi-Low Ind. Avg. | | | | 0.9 | | | | |
| "Low" Multiple | | 0.53 | | | | | | 2010E SPS | | \$ 48.16 | | |
| "High" Multiple | | 1.07 | | | | | | 2010 Price Target (no premium) | | \$ 40.29 | | |
| Average | | 0.80 | | | | | | | | | | |
| "Low" Target | | \$ 25.50 | | | | | | | | | | |
| "High" Target | | \$ 51.64 | | | | | | | | | | |
| Average | | \$ 38.57 | | | | | | | | < Price target with P/S premium taken into account | | |

Figure 13: Price to Book Value Valuation

Source: Company Documents, FactSet

| | | | | | | | | | | | | | | | | | | | | | | |
|---------------------------------------|--------------|------|--------------|------|--------------|------|--------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Historical P/BV Peer Groupings | Group #1 | HON | | | BA | | | GD | | | ITT | | | | | | | | | | | |
| | | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | | | | | | |
| | | 2004 | 31.2 | 38.5 | 13.0 | 38.0 | 55.5 | 11.9 | 42.5 | 55.0 | 16.9 | 35.5 | 43.4 | 11.0 | | | | | | | | |
| | | 2005 | 32.7 | 39.5 | 13.5 | 49.5 | 72.4 | 12.2 | 48.8 | 61.1 | 19.8 | 40.2 | 58.1 | 13.4 | | | | | | | | |
| | | 2006 | 35.2 | 45.8 | 13.9 | 65.9 | 92.1 | 14.5 | 56.7 | 78.0 | 23.4 | 45.3 | 58.7 | 17.1 | | | | | | | | |
| | Group #1 | BDK | | | ACAT | | | TTC | | | UFPT | | | | | | | | | | | |
| | | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | | | | | | |
| | | 2005 | 20.1 | 63.6 | 20.7 | 2.4 | 8.0 | 9.7 | 20.2 | 42.0 | 10.7 | 3.5 | 7.1 | 6.2 | | | | | | | | |
| | | 2006 | 75.7 | 93.7 | 19.9 | 17.9 | 28.4 | 9.8 | 33.7 | 49.0 | 9.7 | 2.2 | 6.4 | 3.0 | | | | | | | | |
| | | 2007 | 66.0 | 94.9 | 17.5 | 15.5 | 24.2 | 10.6 | 36.0 | 52.6 | 10.6 | 2.2 | 8.0 | 3.4 | | | | | | | | |
| | Group #2 | GD | | | LMT | | | GY | | | UTX | | | | | | | | | | | |
| | | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | | | | | | |
| | | 2005 | 35.3 | 68.8 | 30.4 | 57.4 | 87.1 | 8.2 | 1.8 | 8.5 | 0.1 | 37.4 | 68.3 | 19.7 | | | | | | | | |
| | | 2006 | 48.8 | 61.1 | 19.8 | 52.5 | 65.5 | 17.7 | 16.8 | 21.3 | 1.9 | 48.4 | 58.9 | 15.5 | | | | | | | | |
| | | 2007 | 56.7 | 78.0 | 23.4 | 62.5 | 93.2 | 19.1 | 12.0 | 20.8 | -1.8 | 54.2 | 67.5 | 18.9 | | | | | | | | |
| Group #2 | SWK | | | PII | | | BGG | | | FSYS | | | | | | | | | | | | |
| | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | | | | | | | |
| | 2005 | 22.6 | 51.2 | 23.8 | 14.5 | 49.7 | 5.4 | 11.1 | 23.3 | 13.9 | 9.8 | 47.8 | 12.9 | | | | | | | | | |
| | 2006 | 41.5 | 51.8 | 16.5 | 43.8 | 74.2 | 8.4 | 30.8 | 44.5 | 17.4 | 5.4 | 16.6 | 6.2 | | | | | | | | | |
| | 2007 | 41.6 | 54.6 | 18.5 | 34.2 | 54.9 | 8.5 | 30.0 | 40.4 | 18.1 | 10.0 | 25.0 | 7.2 | | | | | | | | | |
| Peer Group#1 | Peer Group#1 | | Peer Group#2 | | Peer Group#1 | | Peer Group#2 | | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | | | | | |
| | Tic | Wgt | Tic | Wgt | Tic | Wgt | Tic | Wgt | | | | | | | | | | | | | | |
| | HON | 0.32 | BDK | 0.03 | GD | 0.32 | SWK | 0.03 | | | | | | | | 2005 | 30.1 | 41.8 | 12.4 | 32.7 | 61.6 | 16.1 |
| | BA | 0.28 | ACAT | 0.03 | LMT | 0.28 | PII | 0.03 | | | | | | | | 2006 | 37.2 | 50.4 | 12.7 | 39.8 | 51.6 | 14.4 |
| | GD | 0.13 | TTC | 0.02 | GY | 0.13 | BGG | 0.02 | | | | | | | | 2007 | 43.7 | 60.3 | 14.2 | 45.1 | 65.6 | 15.9 |
| ITT | 0.07 | UFPT | 0.12 | UTX | 0.07 | FSYS | 0.12 | 2008 | 54.2 | 73.4 | 12.4 | 57.9 | 77.3 | 17.1 | | | | | | | | |
| | | | | | | | | 2009 | 28.2 | 67.6 | 15.3 | 40.0 | 82.4 | 20.6 | | | | | | | | |

| | | | | | | | | | | | | | |
|---------------------------------|--|------|-----------------------------|--------------|------|--------------|--------------|----------------|--------------------------------|----------------|----------|------|-----|
| Historical P/BV Analysis | TXT | | | PEER GROUP#1 | | | PEER GROUP#2 | | | | | | |
| | Year | LOW | HIGH | BVPS | LOW | HIGH | BVPS | LOW | HIGH | BVPS | | | |
| | 2005 | 32.6 | 40.4 | 12.4 | 30.1 | 41.8 | 12.4 | 32.7 | 61.6 | 16.1 | | | |
| | 2006 | 37.8 | 49.5 | 12.1 | 37.2 | 50.4 | 12.7 | 39.8 | 51.6 | 14.4 | | | |
| | 2007 | 43.6 | 74.4 | 12.6 | 43.7 | 60.3 | 14.2 | 45.1 | 65.6 | 15.9 | | | |
| | 2008 | 10.1 | 70.1 | 14.7 | 54.2 | 73.4 | 12.4 | 57.9 | 77.3 | 17.1 | | | |
| | 2009 | 3.6 | 21.0 | 11.0 | 28.2 | 67.6 | 15.3 | 40.0 | 82.4 | 20.6 | | | |
| | Wgt. | TXT | | PEER GROUP#1 | | PEER GROUP#2 | | Ind. Composite | | TXT RelativePB | | | |
| | | Year | Low | High | Low | High | Low | High | Low | High | Low | High | |
| | | 0.2 | 2005 | 2.6 | 3.3 | 2.4 | 3.4 | 2.0 | 3.8 | 2.4 | 3.5 | 1.1 | 0.9 |
| | | 0.2 | 2006 | 3.1 | 4.1 | 2.9 | 4.0 | 2.8 | 3.6 | 2.9 | 3.9 | 1.1 | 1.1 |
| | | 0.2 | 2007 | 3.5 | 5.9 | 3.1 | 4.2 | 2.8 | 4.1 | 3.1 | 4.8 | 1.1 | 1.2 |
| | | 0.2 | 2008 | 0.7 | 4.8 | 4.4 | 5.9 | 3.4 | 4.5 | 2.8 | 5.1 | 0.2 | 0.9 |
| | | 0.2 | 2009 | 0.3 | 1.9 | 1.8 | 4.4 | 1.9 | 4.0 | 1.4 | 3.4 | 0.2 | 0.6 |
| | 1 | W/A | 2.0 | 4.0 | 2.9 | 4.4 | 2.6 | 4.0 | 2.5 | 4.1 | 0.8 | 0.9 | |
| Using Historical Average | | | Historical Hi-Low Ind. Avg. | | | | | | 3.3 | | | | |
| "Low" Multiple | 1.90 | | | | | | | | 2010E BVPS | | \$ 9.30 | | |
| "High" Multiple | 3.91 | | | | | | | | 2010 Price Target (no premium) | | \$ 28.08 | | |
| Average | 2.90 | | | | | | | | | | | | |
| "Low" Target | \$ 17.68 | | | | | | | | | | | | |
| "High" Target | \$ 36.33 | | | | | | | | | | | | |
| Average | \$ 27.00 < Price target with P/BV premium taken into account | | | | | | | | | | | | |

Figure 14: Competitive Environment for Cessna and Bell*Source: Company Documents, FactSet*

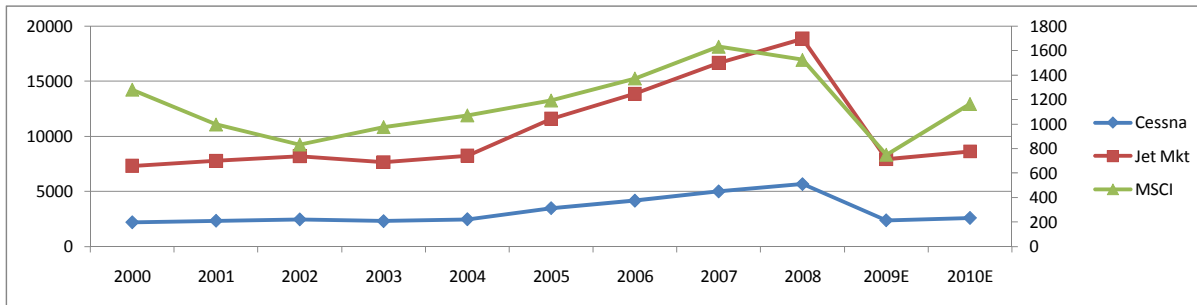
| Cessna Competitive Environment | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 2004 | 2005 | 2006 | 2007 | 2008 |
| Cessna | 10,253 | 9,141 | 8,358 | 10,295 | 11,882 |
| Embraer | 2,666 | 2,981 | 3,095 | 3,464 | 3,547 |
| Hawker Beechcraft | 3,012 | 3,433 | 4,116 | 4,828 | 5,512 |
| Gulfstream | 1,626 | 1,431 | 1,919 | 1,975 | 2,199 |
| Dessault Falcon | 7,896 | 8,019 | 8,142 | 8,296 | 9,713 |
| Bombardier | 25,453 | 25,004 | 25,631 | 28,858 | 32,852 |
| Revenue Growth YOY | | | | | |
| Cessna | | -11% | -9% | 23% | 15% |
| Embraer | | 12% | 4% | 12% | 2% |
| Hawker Beechcraft | | 14% | 20% | 17% | 14% |
| Gulfstream | | -12% | 34% | 3% | 11% |
| Dessault Falcon | | 2% | 2% | 2% | 17% |
| Bombardier | | -2% | 3% | 13% | 14% |

| Bell Competitive Environment | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Bell | 2,348 | 2,254 | 2,881 | 2,347 | 2,581 | 2,827 |
| Boeing/Military Aircraft | 10,763 | 11,394 | 11,444 | 14,142 | 13,740 | 13,492 |
| UTX/Sikorsky | 2,184 | 2,506 | 2,802 | 3,230 | 4,789 | 5,368 |
| BAS Systems/International | <i>n/a</i> | <i>n/a</i> | 3,138 | 3,428 | 3,359 | 3,333 |
| LMT/Aeronautics | 10,206 | 11,785 | 11,672 | 12,188 | 12,303 | 11,473 |
| Revenue Growth YOY | | | | | | |
| Bell | | -4% | 28% | -19% | 10% | 10% |
| Boeing/Military Aircraft | | 6% | 0% | 24% | -3% | -2% |
| UTX/Sikorsky | | 15% | 12% | 15% | 48% | 12% |
| BAS Systems/International | | <i>n/a</i> | <i>n/a</i> | 9% | -2% | -1% |
| LMT/Aeronautics | | 15% | -1% | 4% | 1% | -7% |

Figure 15: Business Jet Sales vs. Corporate Wealth

Source: Company Documents, FactSet

| MSCI World Index and Business Jet Demand Relationship | | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|-------------|-------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E |
| Cessna | \$ 2,197.00 | \$ 2,332.00 | \$ 2,461.00 | \$ 2,299.00 | \$ 2,473.00 | \$ 3,480.00 | \$ 4,156.00 | \$ 5,000.00 | \$ 5,662.00 | \$ 2,375.33 | \$ 2,589.11 |
| Total Market | \$ 7,323.33 | \$ 7,773.33 | \$ 8,203.33 | \$ 7,663.33 | \$ 8,243.33 | \$ 11,600.00 | \$ 13,853.33 | \$ 16,666.67 | \$ 18,873.33 | \$ 7,917.78 | \$ 8,630.38 |
| MSCI World Index | 1282 | 997.3 | 833.47 | 976.02 | 1072 | 1193.88 | 1373.37 | 1633.58 | 1525.75 | 750 | 1165 |



Source: Corporate Wealth Numbers from Fact Set, Cessna and Total Market from Textron Financials.

Figure 16: Textron 2 Year Graph

Source: Finance Yahoo



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¹ FactSet was used to research numeric data on companies bought or sold, as well as those companies websites.

² Textron 2008 10-K

³ Textron Company web site

⁴ Textron 2008 Fact Book

⁵ Textron 2008 10-K

⁶ Textron 2008 10-K

⁷ Bombardier web page.

⁹ Corporate wealth numbers obtained from FactSet, Jet order from Textron Financials

¹⁰ Textron company website

¹¹ Info derived from 2010 Department of Defense Budget

¹² Air force budget information comes from "Air Force Financial Management & Comptroller", part of U.S. Air Force website at <www.saffm.hq.af.mil/budget/pbfy08.asp> where past and next year's budget information can be found.

¹³ Textron 2008 10-K

¹⁴ Textron 2008 10-K

¹⁵ Textron 2008 10-K

¹⁶ Textron 2008 10-K