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HEDGEYE



TXT | DEFENSE WINS CHAMPIONSHIPS

OCTOBER 2016

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QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

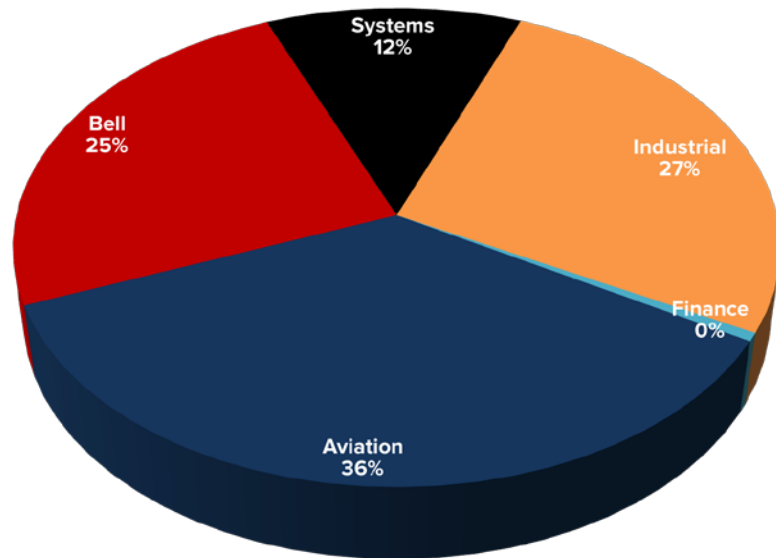
SHORT THESES USUALLY SOUND SMARTER

“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

- Winston Churchill

TXT SEGMENTS: SALES, OP PROFIT

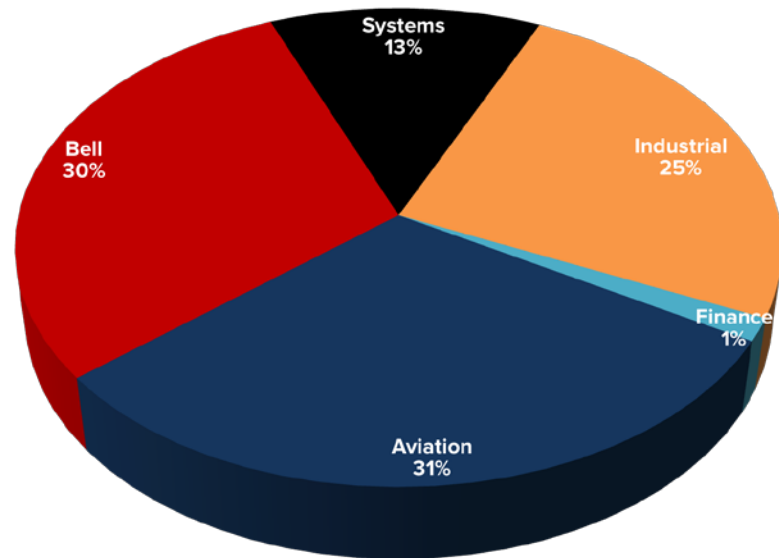
TXT SALES TTM AS OF 2Q16 BY SEGMENT



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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TXT SALES TTM AS OF 2Q16 BY OPERATING PROFIT

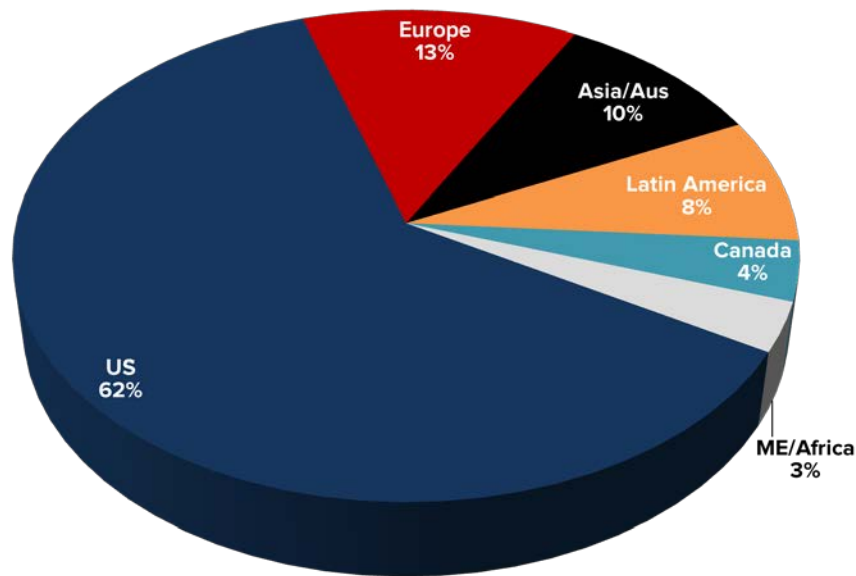


DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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GEOGRAPHY & U.S. GOVERNMENT

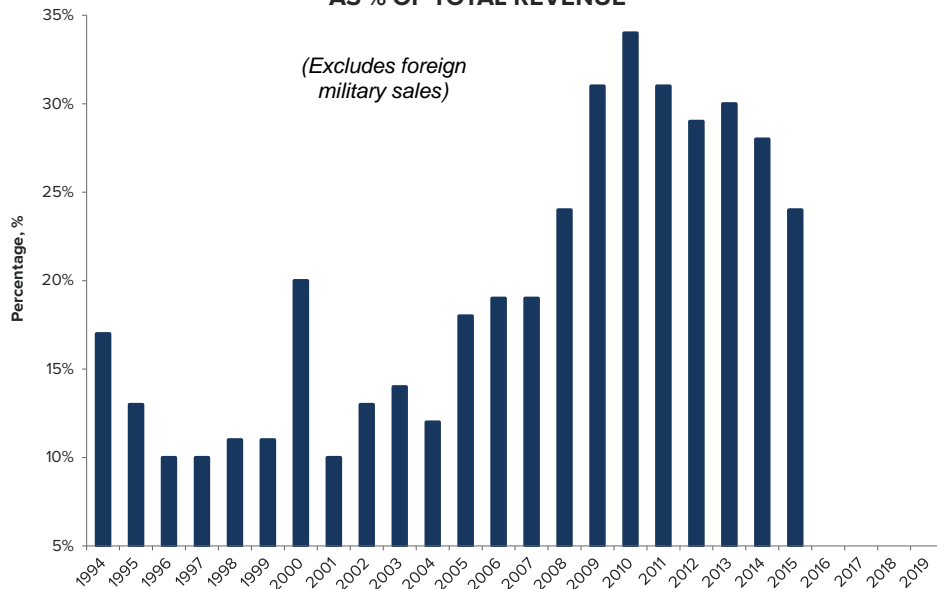
TXT 2015 SALES BY GEOGRAPHY



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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TEXTRON U.S. GOVERNMENT CONTRACTS
AS % OF TOTAL REVENUE



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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SEEN & UNSEEN: POSITIVE LONG-TERM OUTLOOK

(Please ping us for our EQM/datasets)



SEGMENT BOTTOM UP → CHALLENGES OVERBLOWN

- **Business Jets, GA:** Still in recovery from financial crisis, significant aftermarket & new products
- **Bell:** Commercial reset lower on oil & gas, while defense outlook likely better than recognized
- **Systems Solid:** Ship-Shore Connector (SSC) to change segment composition, FMS potential
- **Industrial Great...Somewhere Else:** TXT could unlock value by moving capital toward its core



BELL HAS HIDDEN GROWTH POTENTIAL

- **Defense Spending Solid:** Rare point of political agreement, recapitalization needed
- **V-22 Reman & H-1 FMS:** Key Bell platforms have a longer life than appreciated
- **V-280, V-247:** Bell has superior tech for the Future Vertical Lift, as impactful as JSF in 2020's
- **Latitude, Longitude, Hemisphere, 525:** New commercial entries, driving growth in weak markets



VALUATION, STRATEGY, AND CATALYSTS

- **Reasonably Cheap For Great Franchises:** Shares pricing in stagnant profits, outlook far better
- **Visible Upside Catalysts:** Longitude intro, Army FVL in 2017, V-22 deal with CC-RAM, FMS etc..
- **Post 3Q Strategy :** Given peer weakness, we expect to have a 4Q entry point for Best Ideas

We think a TXT share price >>\$50 per share is reasonable given pending news flow, risks

TXT BULL / BEAR DEBATE

Hedgeye

New Products, Genuine Aftermarket: Textron invested in a number of key platforms, like the Latitude & Longitude, that should generate revenue growth in a fairly stagnant market. Lear potentially interesting.

More Defense Visibility Coming: V-22 has potential for significant FMS and huge remanufacturing program. H-1 also likely to see FMS. Ship To Shore, other platforms offer significant potential.

Commercial Helo Less Bad Than It Looks: Unit sales not particularly inflated, offset with defense, aftermarket.

Margin Upside: We expect increased margins in Aviation, with stabilization at Bell, and restructuring benefits at Industrial and Systems.

Investments Starting To Work: TXT has a string of platforms that are stabilizing or set to grow, with very interesting long-term prospects.

HRM 2018 EPS Range: TXT >\$3.75 (maybe >\$4)

Consensus

Biz Jets Stuck In A Perpetual Slump: No catalyst for recovery, and Textron shares need biz jets to recover for the shares to “work”. Last week’s HON preannouncement didn’t help.

V-22, H-1 In Run Off: Bell’s key platforms look set to wind down. Replacement programs are too far out to be considered by investors.

Defense Not In Key Areas: Shipbuilding, JSF, and certain other areas sapping investment dollars away from Helos, other Textron defense.

Commercial Helicopter Linger Impact of Oil: Energy is a key end-market, and deliveries are not likely to recover with weak commodity prices.

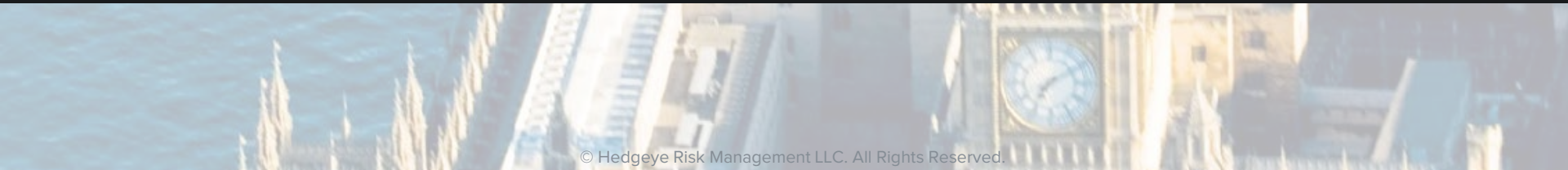
Macro Concerns, Europe: Global customer demand is likely to remain weak.

Not Much To Be Excited About: TXT on fading platforms in cyclically vulnerable commercial markets.

Consensus 2018 EPS Ests: TXT= \$3.26



DEFENSE OUTLOOK



DEFENSE POLICY UPDATE

1

CONGRESS WANTS TO INCREASE DEFENSE \$ IN '17

CR funds gov't through Dec 9. Lame duck session must resolve differences among House, Senate and Administration. House bill increases procurement by not funding troops in war zone after April, forcing increased OCO next year. Senate version increases procurement without OCO. Obama insists that non-defense must also be increased. Expect compromise by mid-December that increases defense by \$9B.

2

NEITHER CANDIDATE WILL CUT PLAN FOR DEFENSE BUDGET IN FY18. ON THE CONTRARY...

Obama plan for FY18 exceeds BCA by \$32B. Hillary will go along. Everyone wants BCA changes. Change is inevitable and every new administration wants to make a mark right away but real change takes time. Real fireworks will be on non-defense.

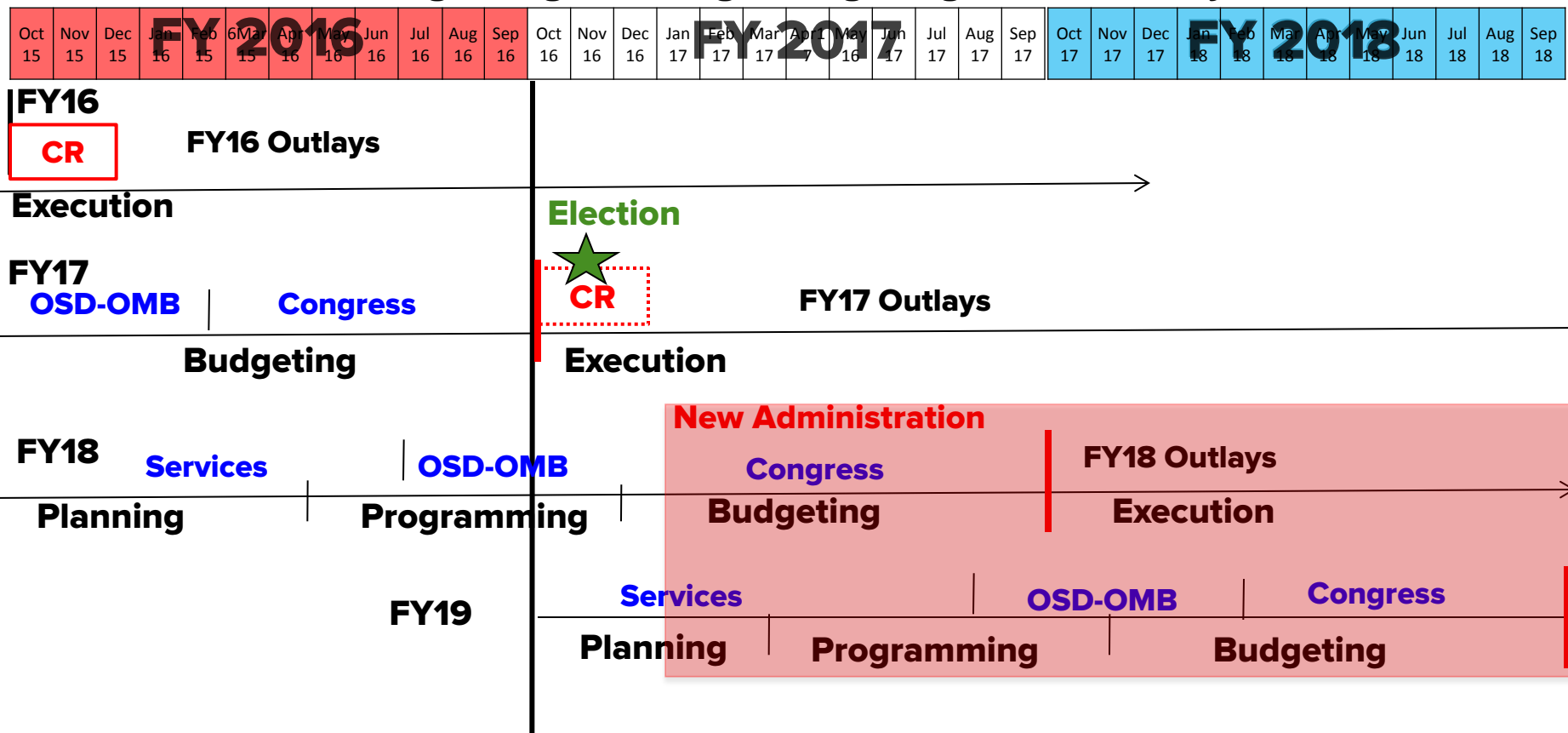
3

HIGHER DEFENSE SPENDING CONCENTRATED INTO FEWER PROGRAMS AND COMPANIES

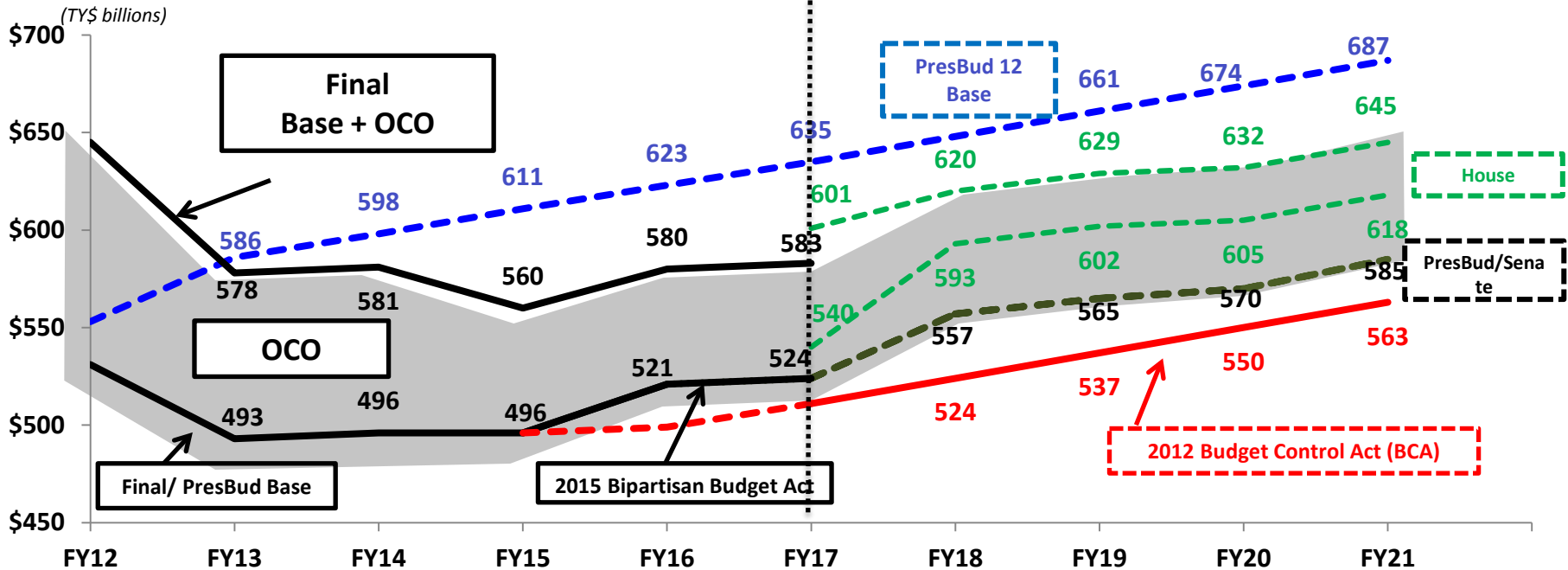
Shipbuilding and aircraft procurement budgets set for 30% increase over the next five years. More money going into fewer programs (F35, tanker, bomber, subs).

DEFENSE BUDGET DEVELOPMENT

Planning, Programming, Budgeting Execution System



DOD TOPLINE SCENARIOS COMPARED



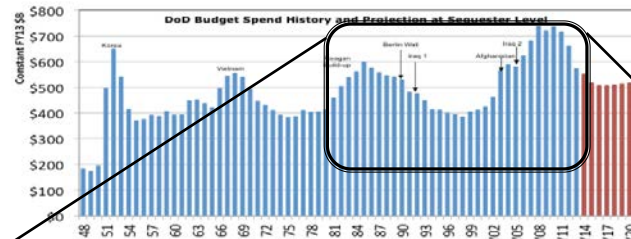
- Pentagon believes they have already come down too far
- OCO outyear assumptions unclear; Pentagon cannot survive without it
- FY18-21 first headache for next Administration; BCA still law of the land

RECAPITALIZATION PRESSURES

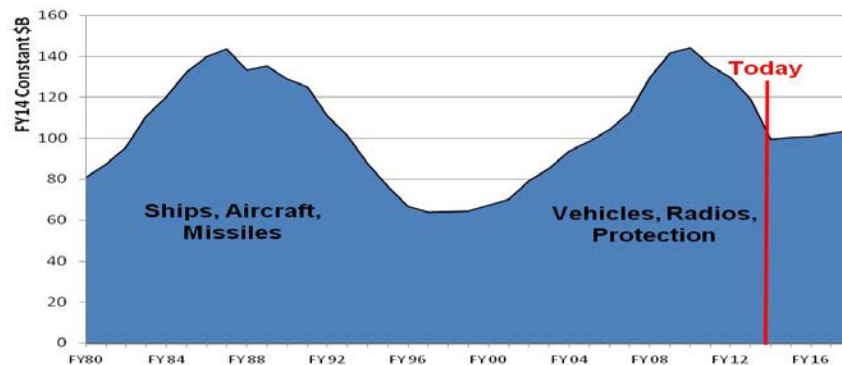
Reagan buildup of 80's focused on ships, aircraft, strategic assets

The spending surge of 2004-12 bought radios and vehicles and did not replace large cap items bought in 80's which are now at end of life:

- Ships
- Aircraft
- Missiles



DoD Procurement: 1980-2018



DOD AVIATION PROCUREMENT SECTORS

Tactical Aviation (TACAIR): #1 item in procurement budget

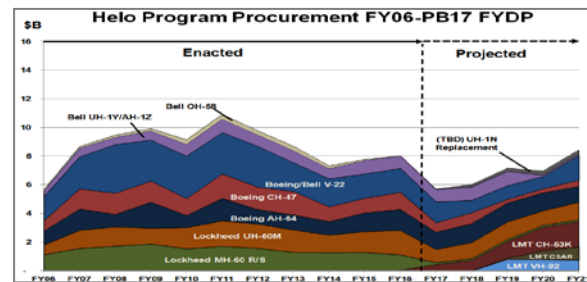
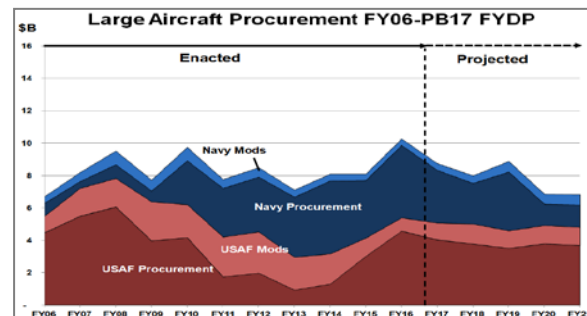
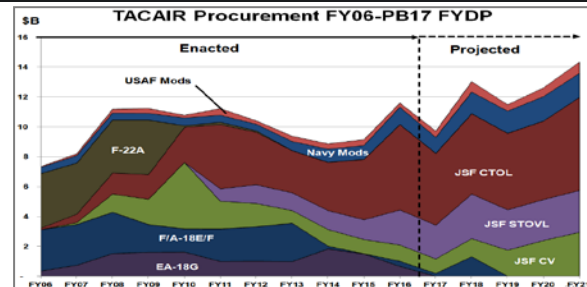
- Lockheed's Joint Strike Fighter (F35) headed for \$15B annually
- Boeing's F/A-18E/F continues to receive funding through Congress

Commercial derivative/ Large aircraft: orders declining

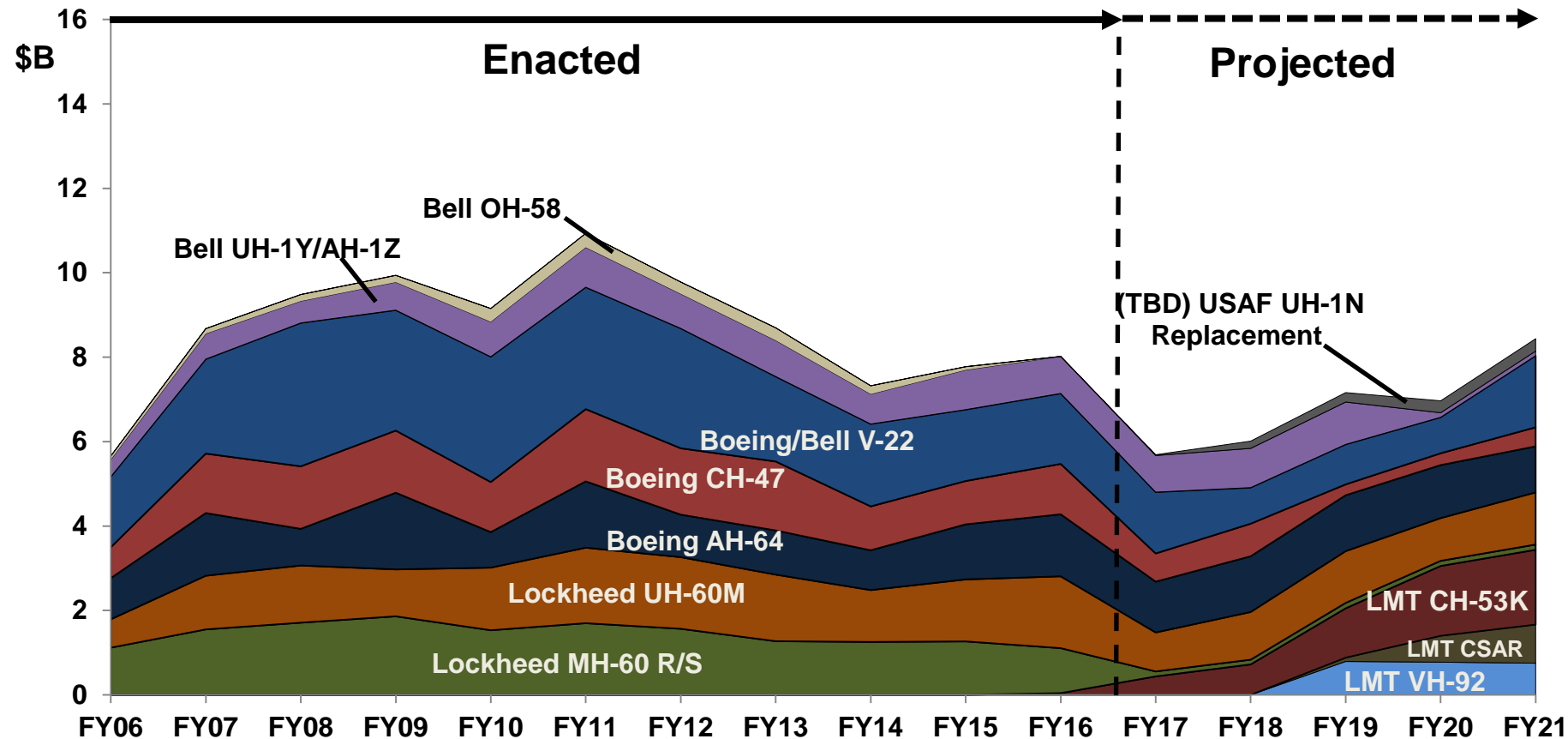
- Navy orders for **Boeing's** P8 (737 derivative) end in FY 2019
- USAF KC-46 tanker (767 derivative) orders firm but not yet profitable for **BA**
- E-2D (**NOC**) ~\$1B/yr is solid;
- NOC's bomber at start of development; no orders until 2021

Helos: Reduced US Gov't demand bottoming out; will increase

- **LMT (Sikorsky)** : H60 orders declining; New products coming: CH53K, VH92
- **Boeing**: H47 decreasing; AH64 reman only; US V22 FMS and reman to help planned reduced orders down
- **TXT**: V22; Stronger H1 sales overseas help declining US orders
- Future Vertical Lift (LMT&BA vs. TXT) demo in 17; actual orders 10 years away



HELO PROGRAM PROCUREMENT FY06-21



FEARLESS PREDICTIONS

Three themes continue:

1. Consensus that the Budget Control Act must be changed
2. Essential recapitalization will be served
3. Continued divergence of industry and gov't incentives

FY17 Defense budget will be increased

- Bickering over how to increase will continue but it will eventually happen
- Continuing Resolution to Dec 9; House members want it to last longer; wait for election results

Upward pressure on defense budget will continue

- National security is main campaign theme; Bidding war probable

New President will face immediate budget crisis

- All due by April: Debt ceiling extension; possible CR expiration; need to submit FY18 budget
- Budget Control Act will be changed; Dems will demand increased non-defense as quid pro quo
- Increasingly tougher choices between recapitalization demands and deficit pressures lie ahead

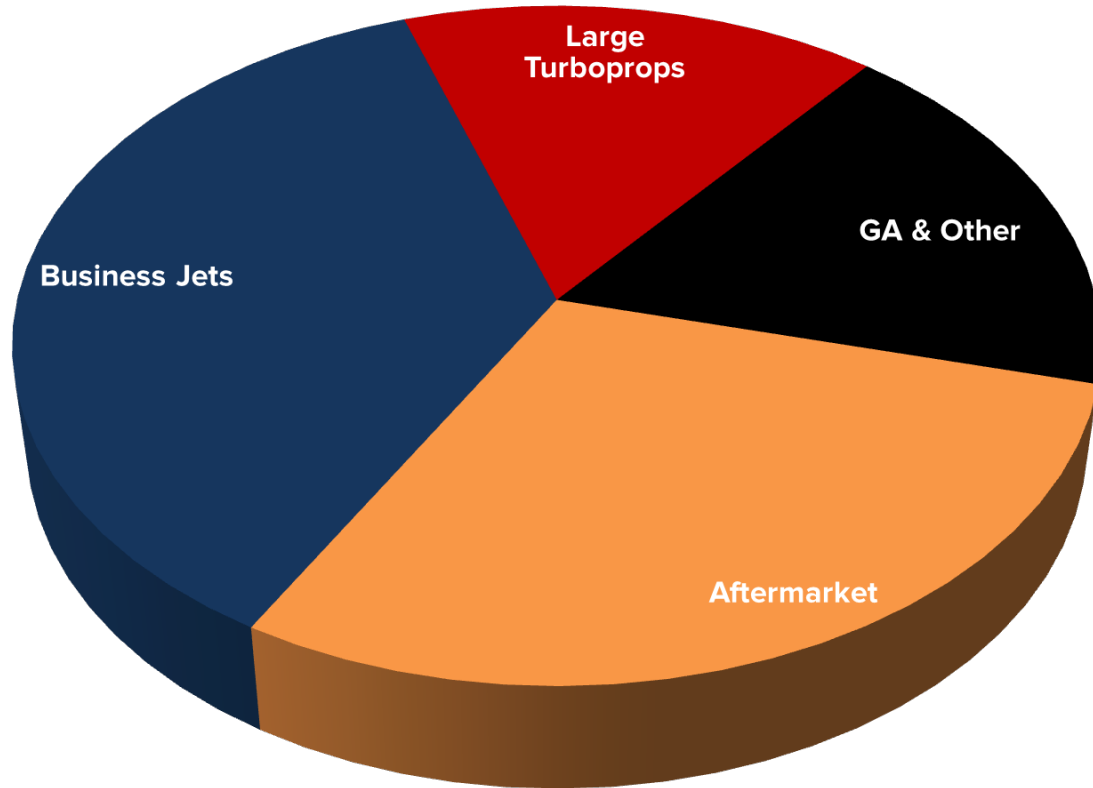
External events remain determinative: “Something always happens.”



AVIATION SEGMENT

BROAD NEW, AFTERMARKET HELPFUL

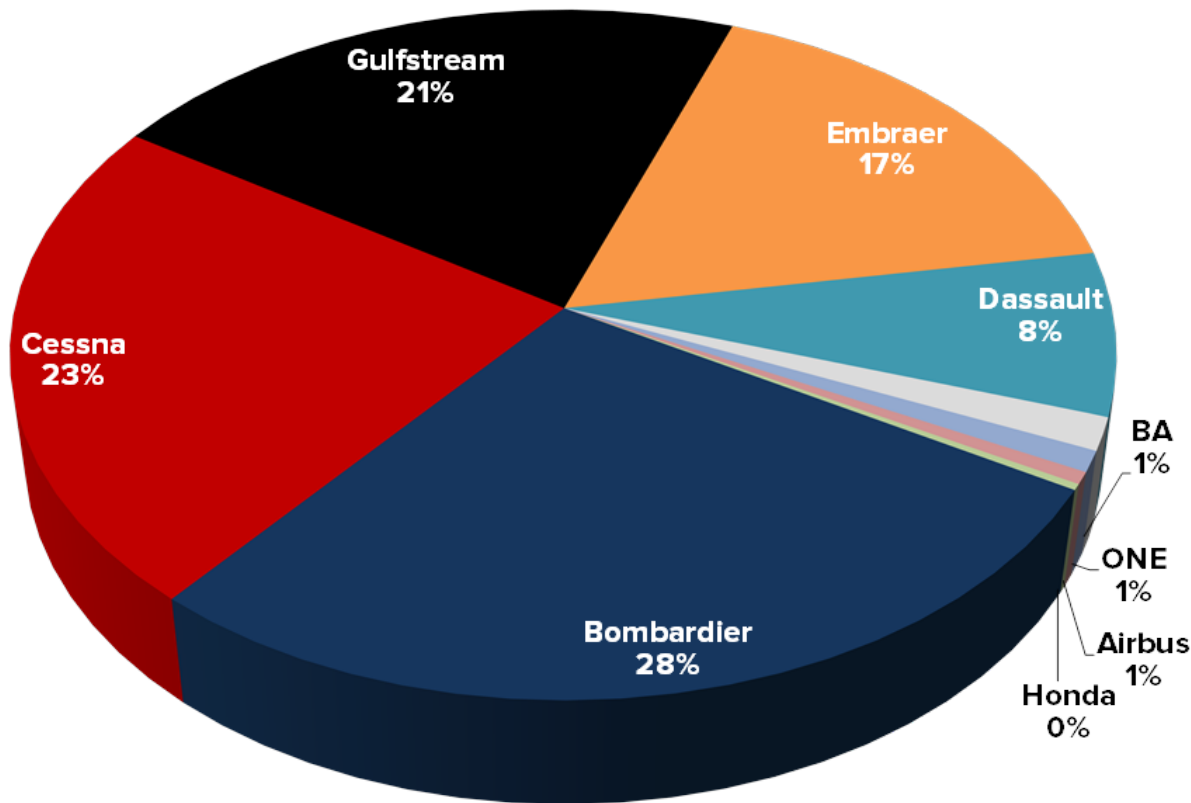
TXT AVIATION 2015 SALES BY BUSINESS



Large Fleet In Service: Recent acquisition has focused on aftermarket, which should expand in 2016.

ROOM FOR SOME CONSOLIDATION

2015 Business Jet Market Share by Shipments



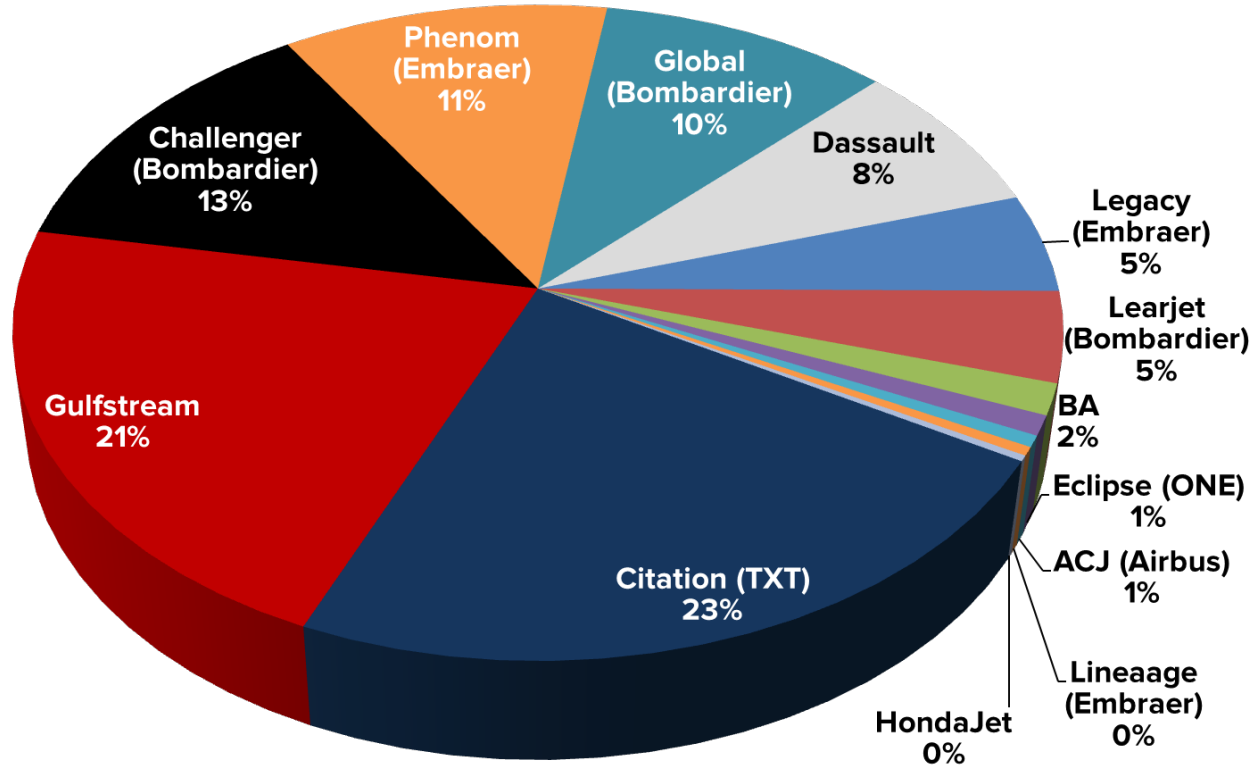
DATA SOURCE: GAMA, HRM ESTIMATES

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Not A Bad Structure:
Bombardier may be looking to divest Lear. We think that would be attractive for Textron.

POSITIONS BY BRAND

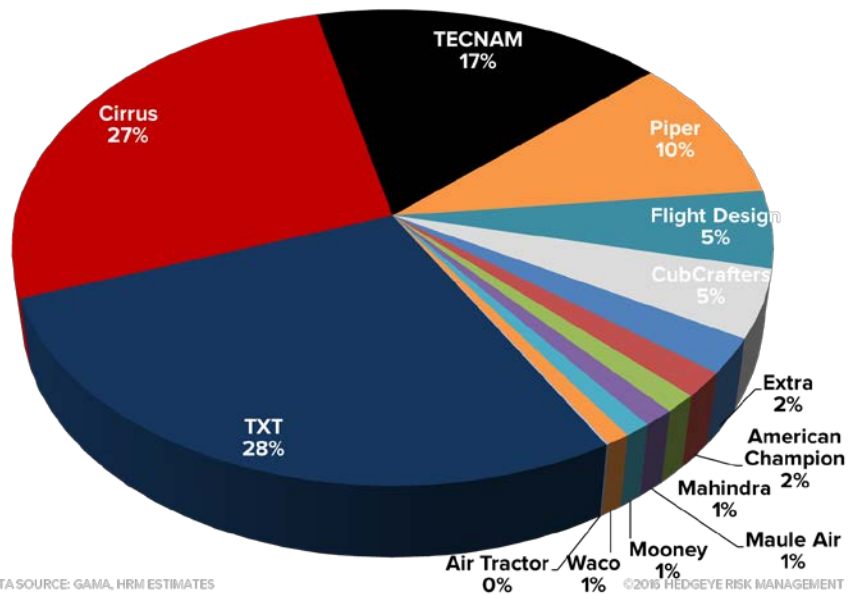
2015 Business Jet Market Share Brand



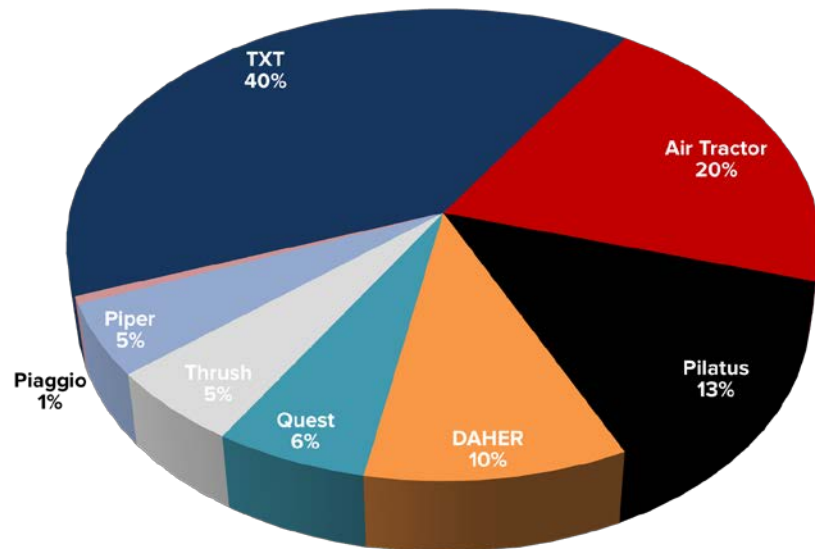
Lear Deal? While Bombardier might recognize the competitive effect, the company might also benefit from more breathing room.

BEECH STRENGTHENED POSITION

2015 Piston Airplane Market Share by Shipments

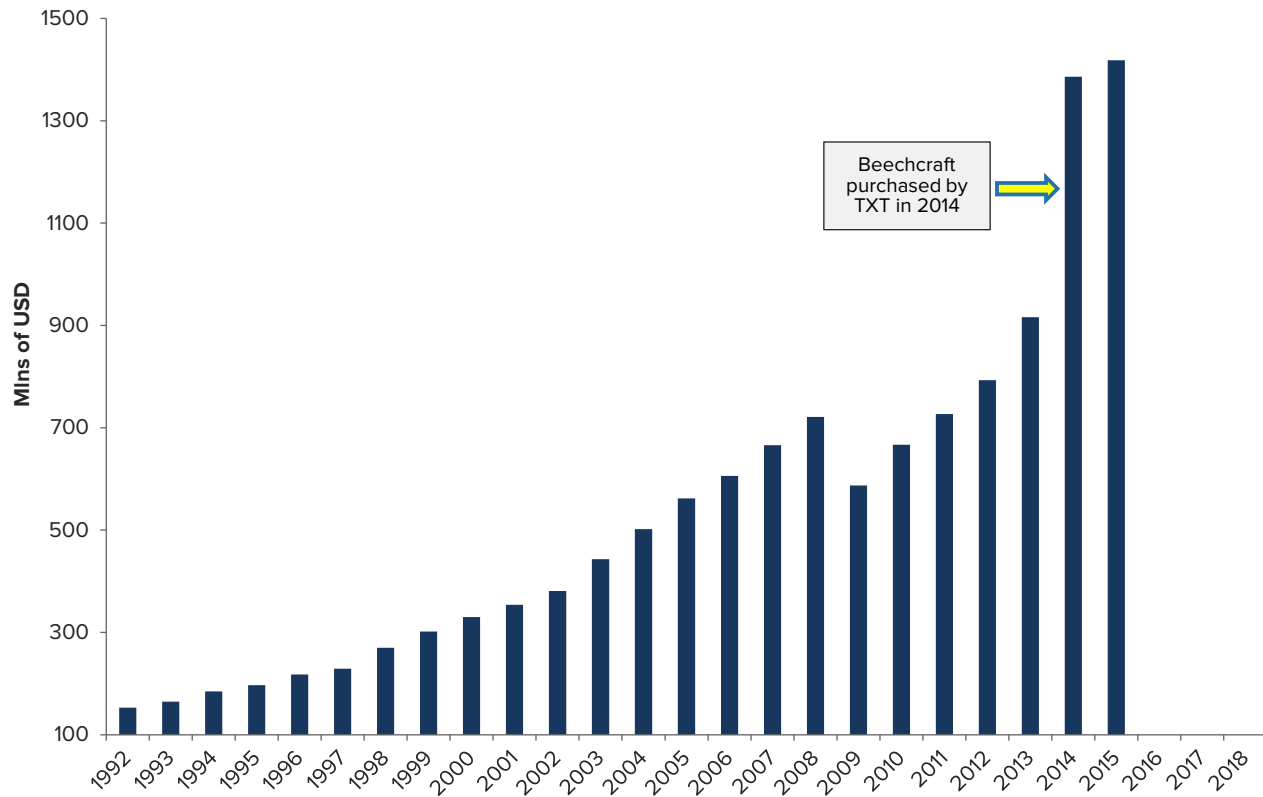


2015 Turboprop Airplane Market Share by Shipments



NOT A BAD TREND: AFTERMARKET HAS GROWN

Cessna & Beechcraft Aftermarket Sales



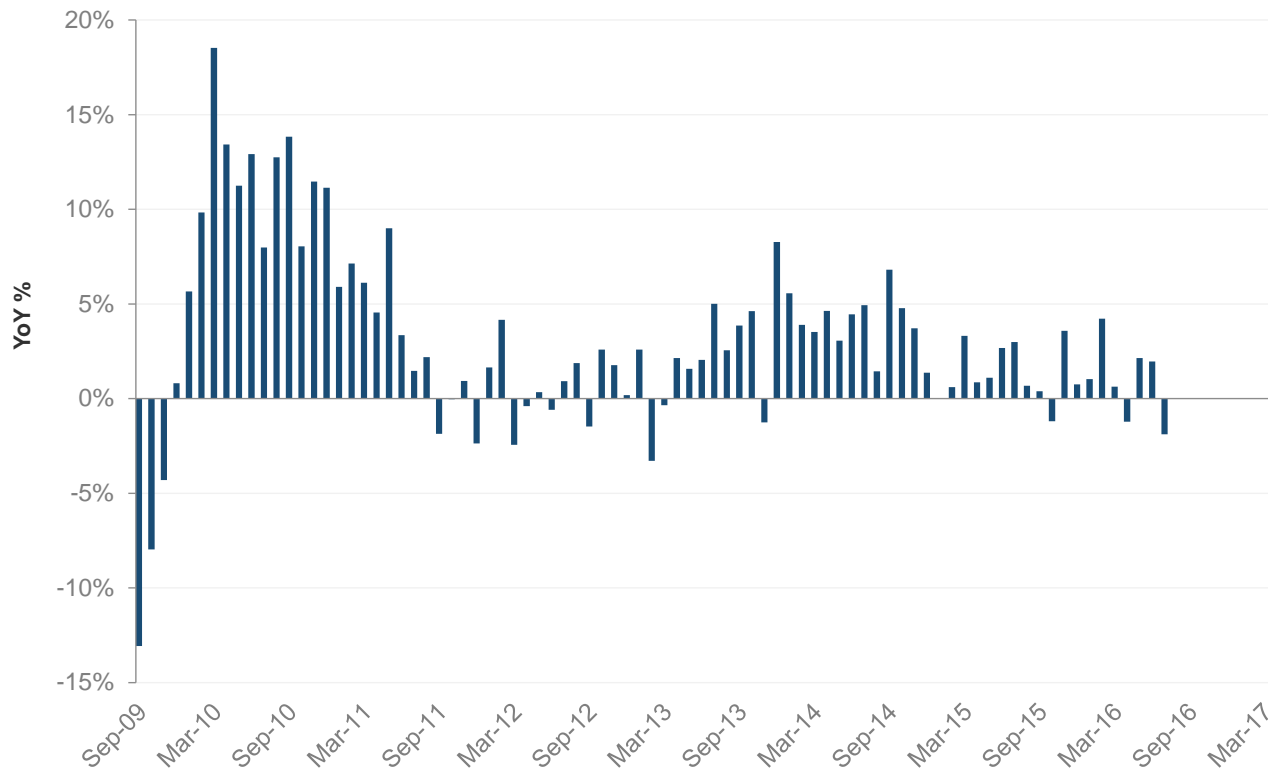
DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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Beechcraft purchase added to aftermarket revenue.

NOT A PEAKING CYCLICAL, LESS RISK

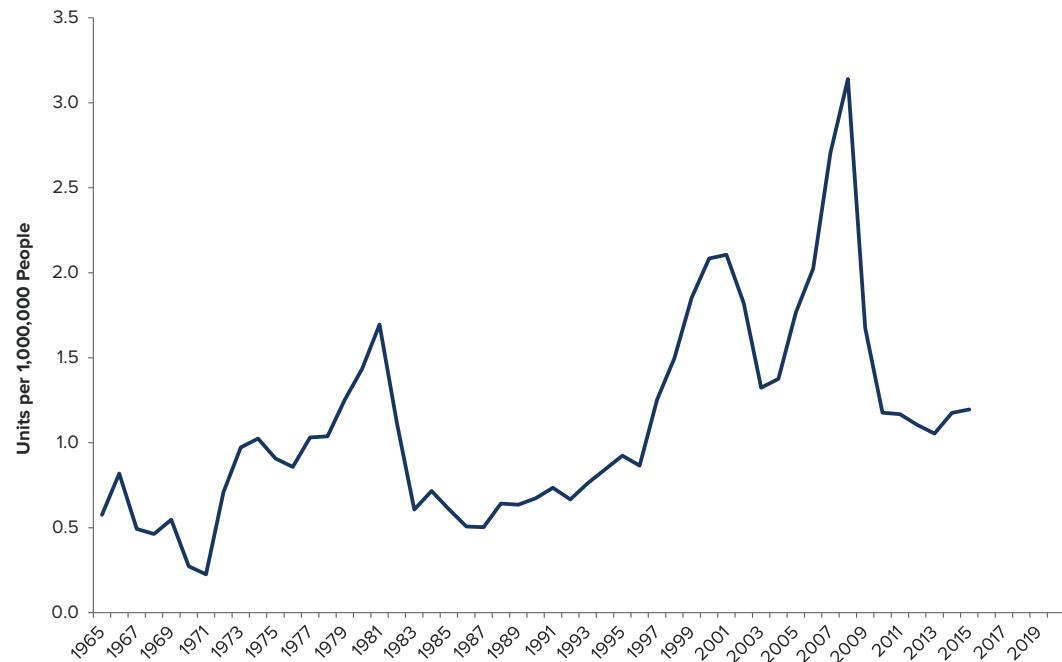
BUSINESS JET FLIGHTS YOY %



Fighting The Last Battle In Financial Crisis? The key in cyclicals is to avoid value traps – this doesn't look like one. New products and acquired service revenue, like Able, drive 2H growth.

NO PEAK: SLIGHTLY BELOW TREND

U.S. BUSINESS JET SHIPMENTS PER 1,000,000 PEOPLE



DATA SOURCE: GAMA, MINNEAPOLIS FED, CENSUS BUREAU, HRM ESTIMATES

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Where is income inequality when one needs it?

U.S. FACTORY NET BILLINGS OF GENERAL AIRCRAFT IN 2015 \$ PER CAPITA

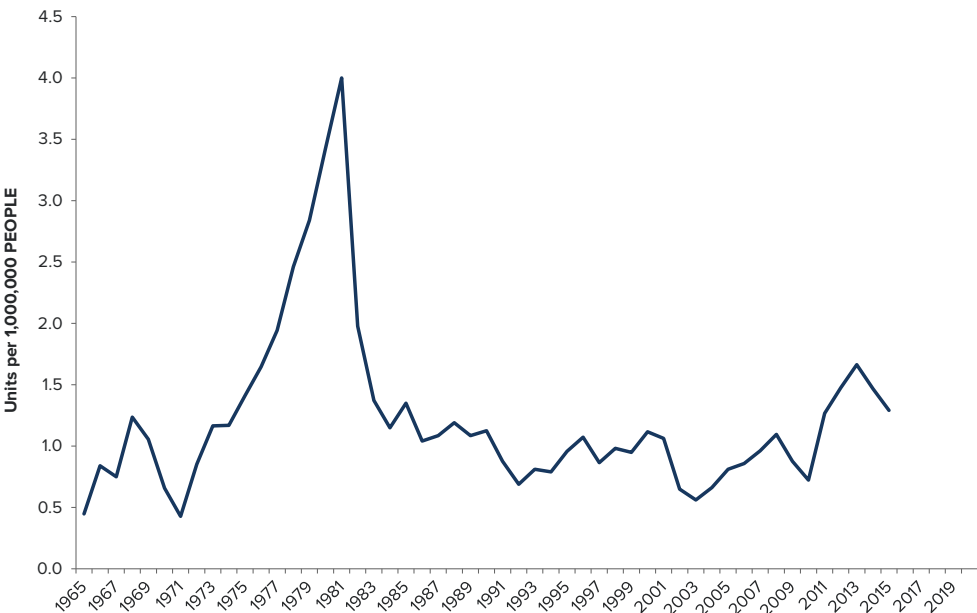


DATA SOURCE: GAMA, MINNEAPOLIS FED, CENSUS BUREAU, HRM ESTIMATES

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TURBOPROPS NOT NOTABLY INFLATED

U.S. TURBOPROP SHIPMENTS PER 1,000,000 PEOPLE

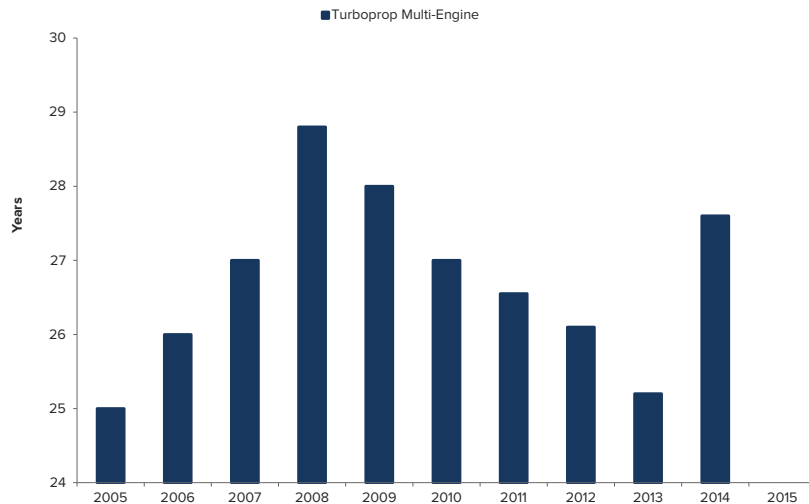


DATA SOURCE: GAMA, MINNEAPOLIS FED, CENSUS BUREAU, HRM ESTIMATES

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Although these do seem fairly old...

AVERAGE AGE OF GENERAL AVIATION AIRCRAFT



DATA SOURCE: GAMA, HRM ESTIMATES

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NEW PRODUCTS SUPPORT TOP-LINE

“And our expectations for the year was that the overall market would be generally fairly flattish from last year, in terms of most of the model types. And most the growth would be driven by the big new product introduction, which in this case this year is Latitude.

....

I think we've been pretty open about the fact that Latitude is selling well.”

- Scott Donnelly 7/22/16



(Source: Company Presentation)

Pushing Upstream:

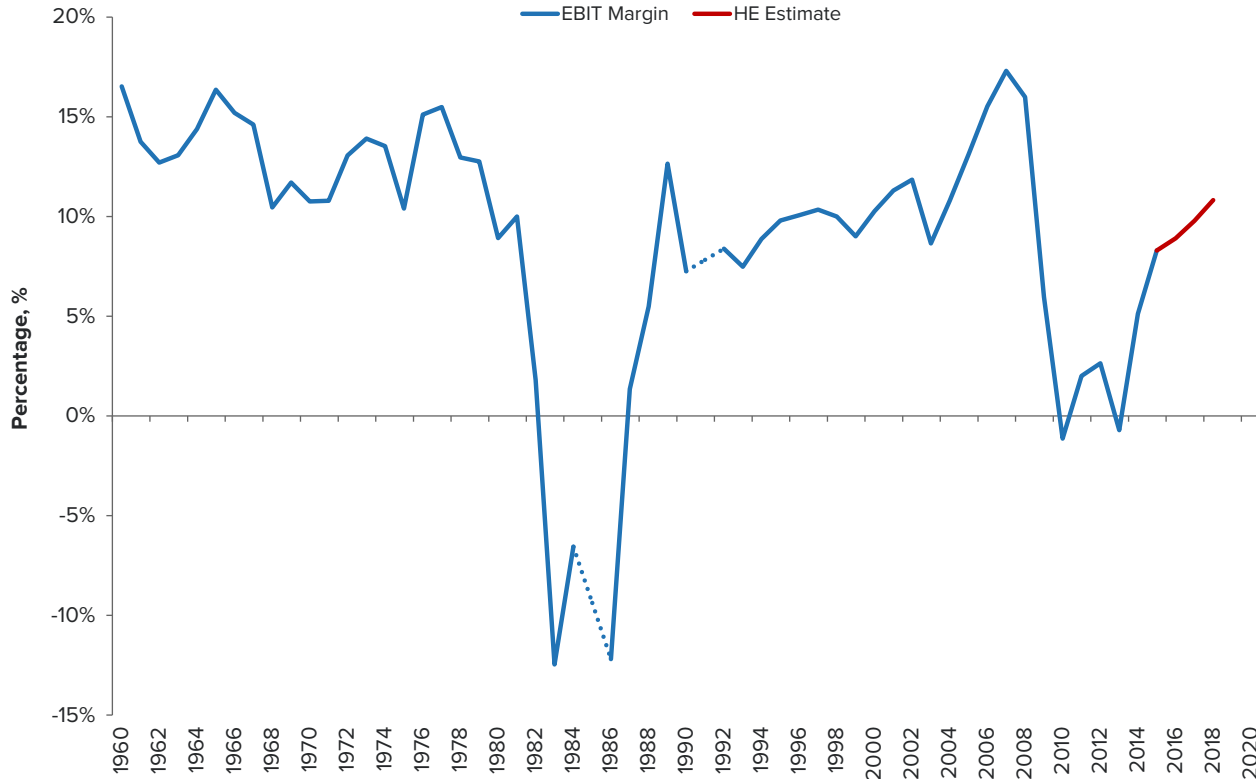
Recent unit growth has been driven by the Latitude. Looking out to 2017, we expect decent revenue growth in a flatish market.

4Q 2017 Longitude:

Imbeds the potential for further growth in a market unlikely to show much demand growth.

AVIATION MARGIN HISTORY

AVIATION/CESSNA & PREDECESSOR EBIT MARGIN



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

*1992 TO 2000 TXT COMBINED CESSNA & BELL

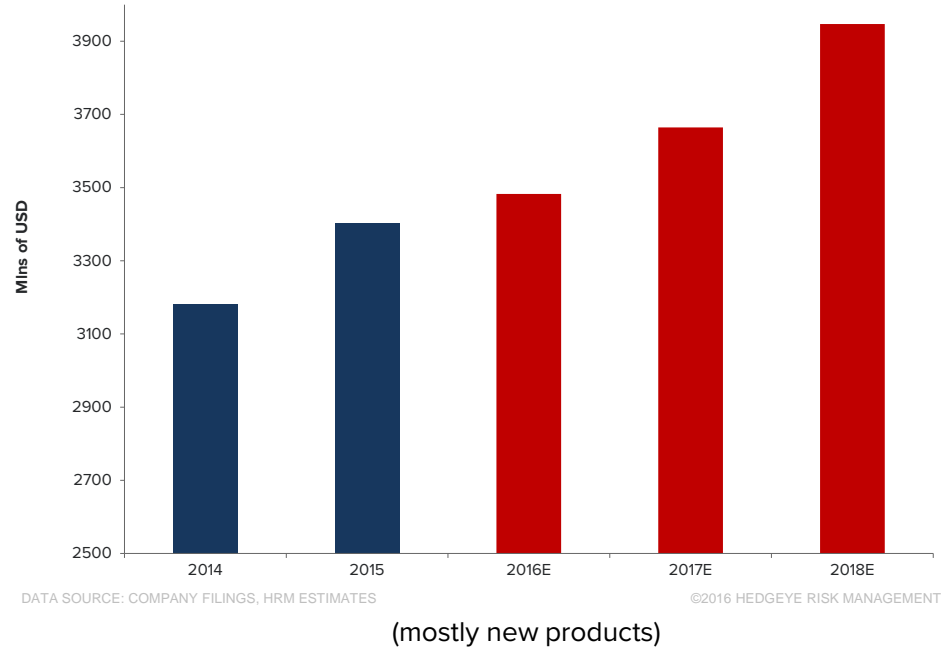
1985 AND 1991 NOT GIVEN *FROM 2014 ON BEECHCRAFT IS ADDED

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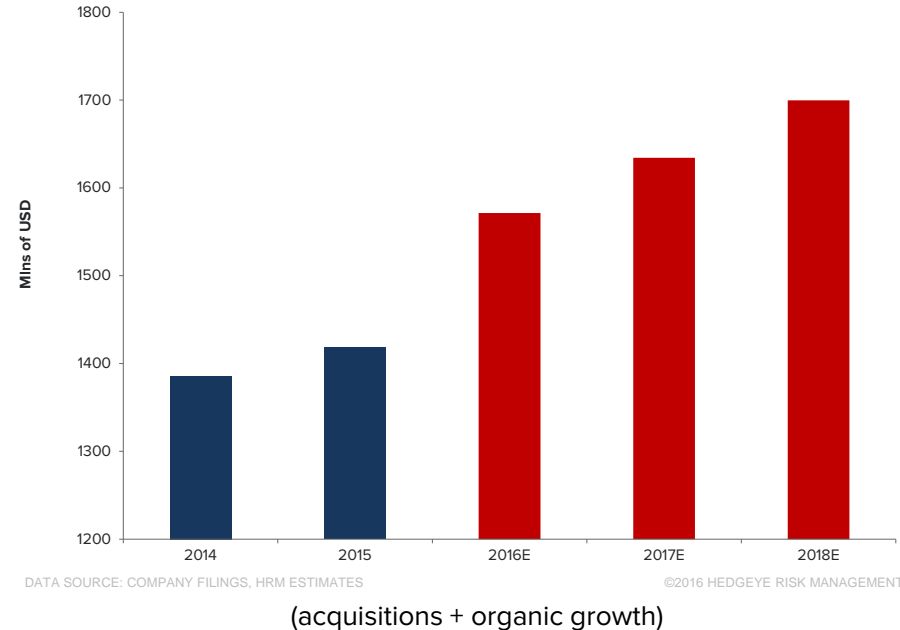
Never Fully Recovered From Financial Crisis: Historically, this has been a double digit operating margin business.

WHERE COULD AVIATION GO?

TXT Aviation Aircraft Sales



TXT Aviation Aftermarket Sales

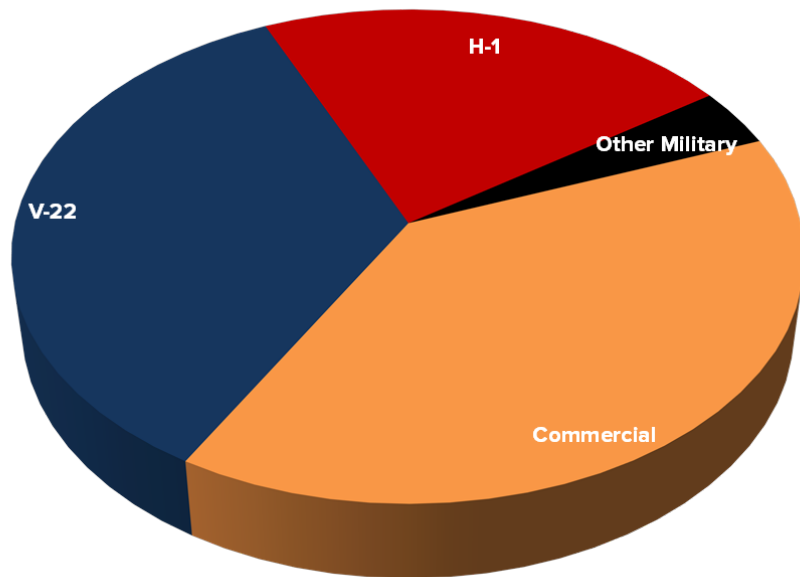




BELL

BELL SIGNIFICANT MILITARY, V-22 & H-1 KEY

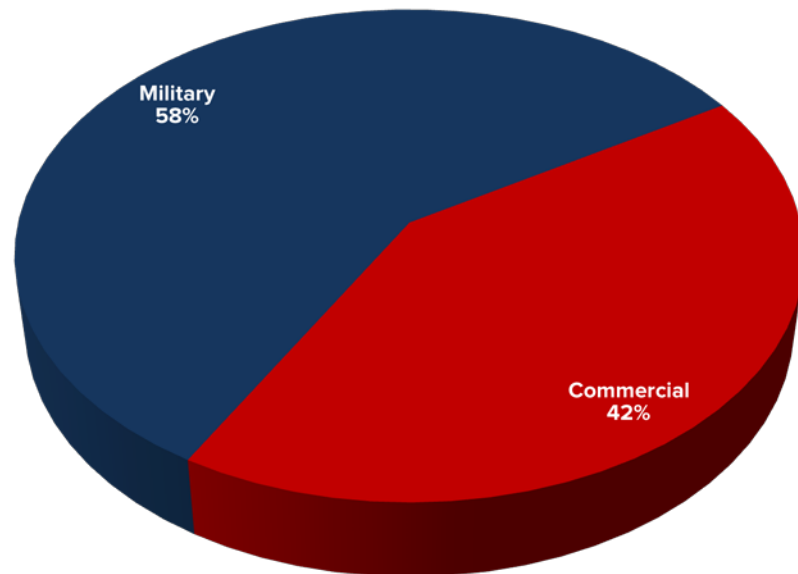
EST. TXT BELL SALES TTM AS OF 2Q16 BY PRODUCT



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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TXT BELL 2015 SALES BY END MARKET

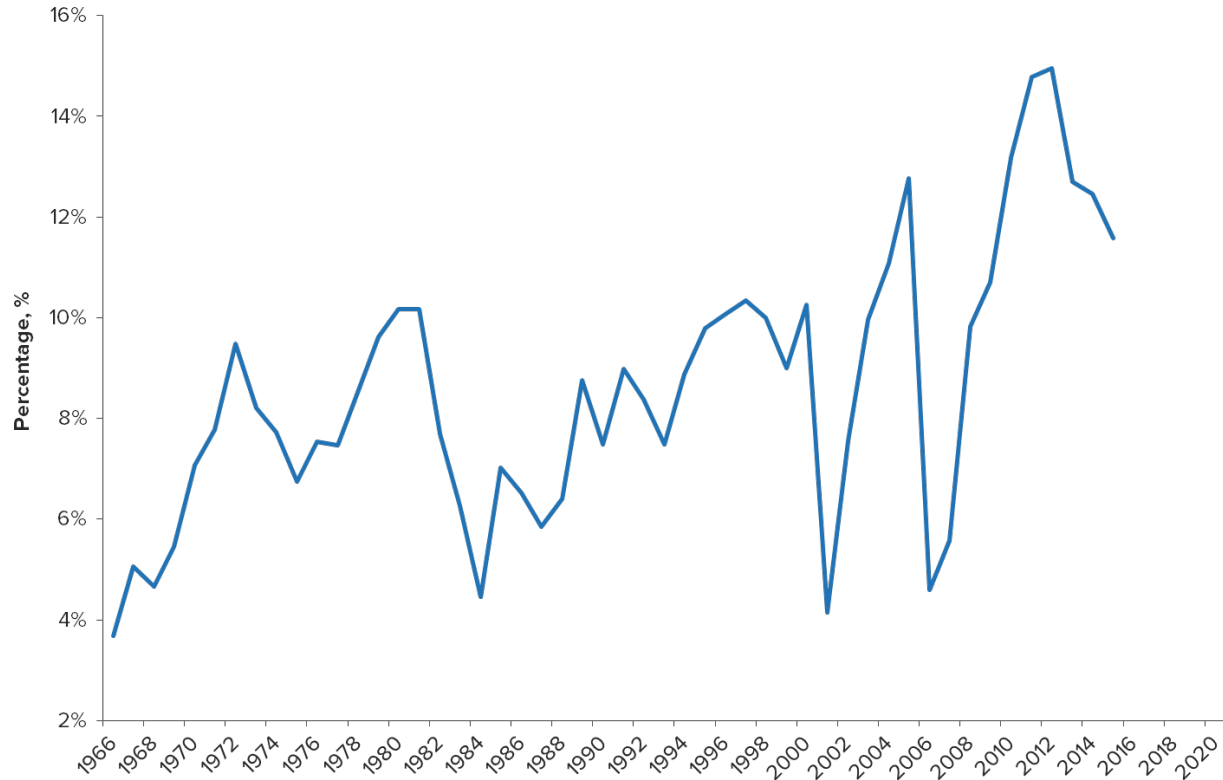


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BELL MARGIN HISTORY

BELL & PREDECESSOR EBIT MARGIN



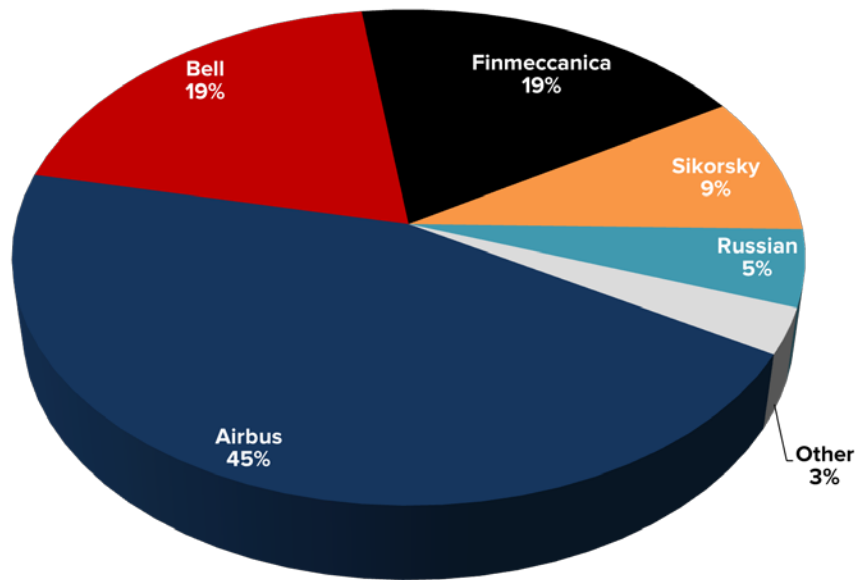
DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES
*1992 TO 2000 TXT COMBINED CESSNA & BELL

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Margin Mostly Corrected: Elevated sales from oil & gas related to commercial segment.

MARKET SHARES: CONSOLIDATED

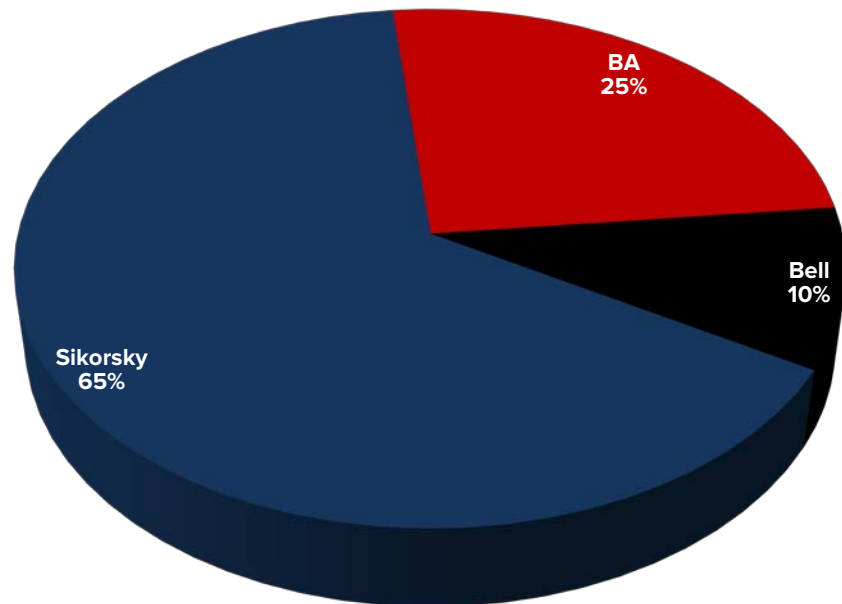
Global Civil & Parapublic Helicopter Market Share >1.3tons



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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Est. 2015 U.S. Military Helicopter Market Share

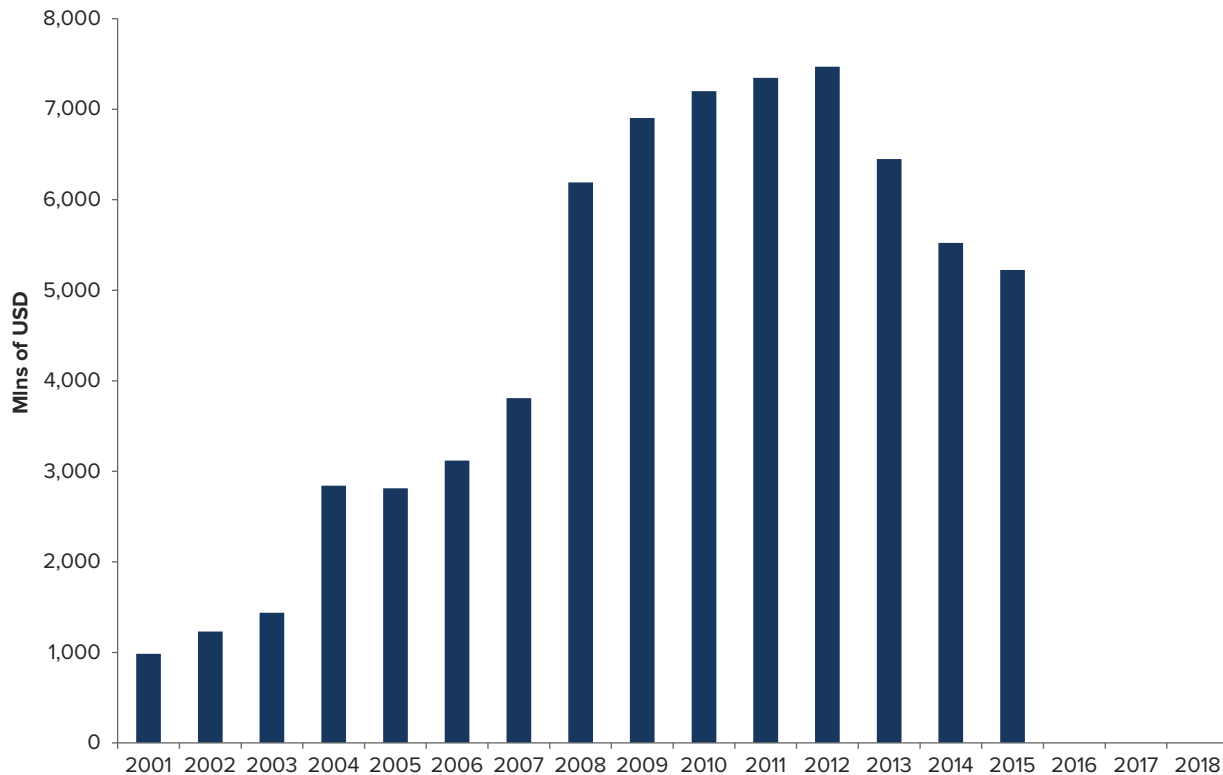


DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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IS THE LOWER BACKLOG A PROBLEM?

TXT Bell Backlog



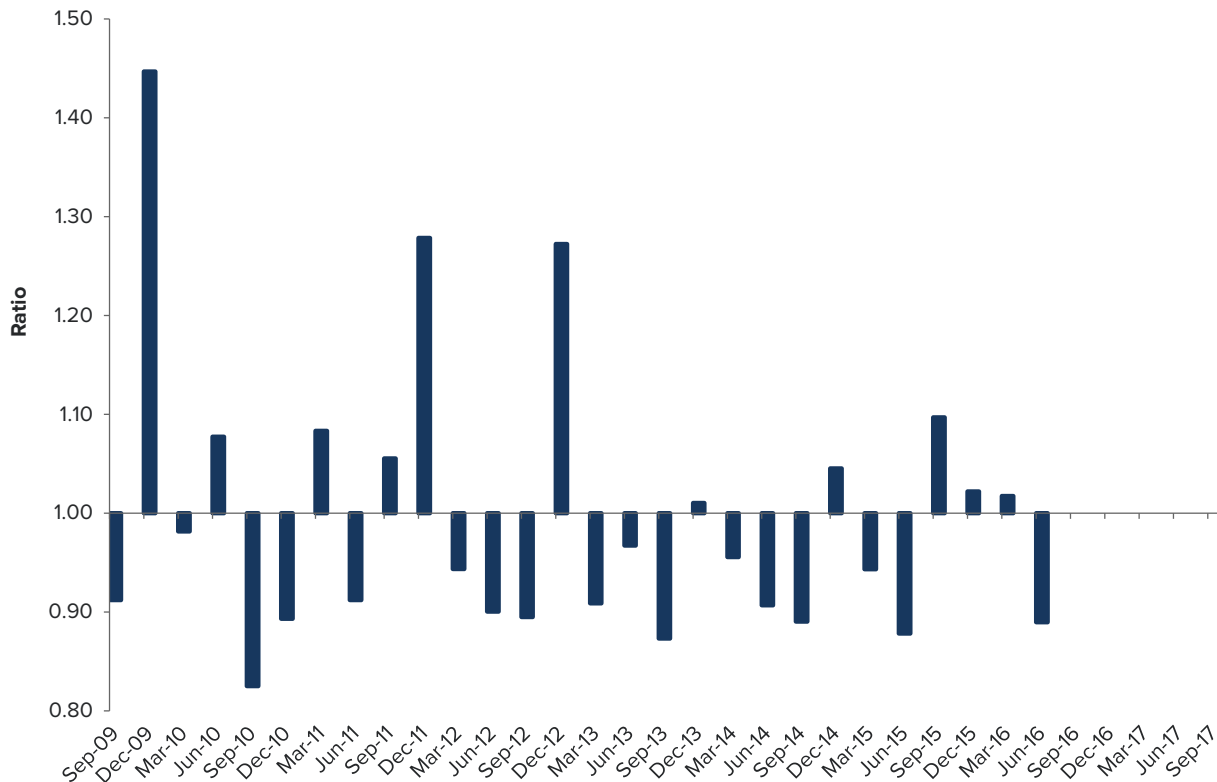
DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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Backlog trend reflects down oil market impact on commercial and does not account for forecasted US and FMS orders.

WHAT ABOUT THE WEAK BOOK TO BILL?

TXT Bell Book-to-Bill, TTM



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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Unlike BizJets, This Could Look Alarming: Margins declining from a high level, oil & gas exposed capital equipment market, and orders below reported sales. But orders are missing some likely pending business....

HIDDEN BELL GROWTH

1

V22: \$4B REMAN PROGRAM

USMC's 282 MV22 aircraft are three different models with a total of 70 different configurations bought over 20 years, an untenable situation which drives maintenance costs. In a program called CCRAM (Configuration Control, Reliability & Maintainability), USMC intends to bring all of its planned 360 aircraft to a standard configuration by early 2020's. Est. unit cost = \$12-15M.

2

V22: FOREIGN MILITARY SALES (FMS)

Japan has signed \$3B contract for 17 aircraft; intends to order 23 more. New \$30B US aid package enables Israel to formally go ahead with expressed intent to buy 12 aircraft. UAE has previously expressed interest in 10 aircraft. UK is potential buyer but not for several years. CCRAM program and FMS sales will allow multiyear contract in 17.

3

H-1: FMS

AH-1Z Viper is shipboard capable as well as lighter and cheaper than AH-64. FMS prospects should keep production line after US orders complete in 2019. Pakistan signed \$170M contract for 9; looking for 6 more. Bahrain must recap its 30 old Cobras, as does Jordan (47). Australia wants to replace its 22 Tigers. Czech Republic, Romania, Taiwan and Thailand have potential.

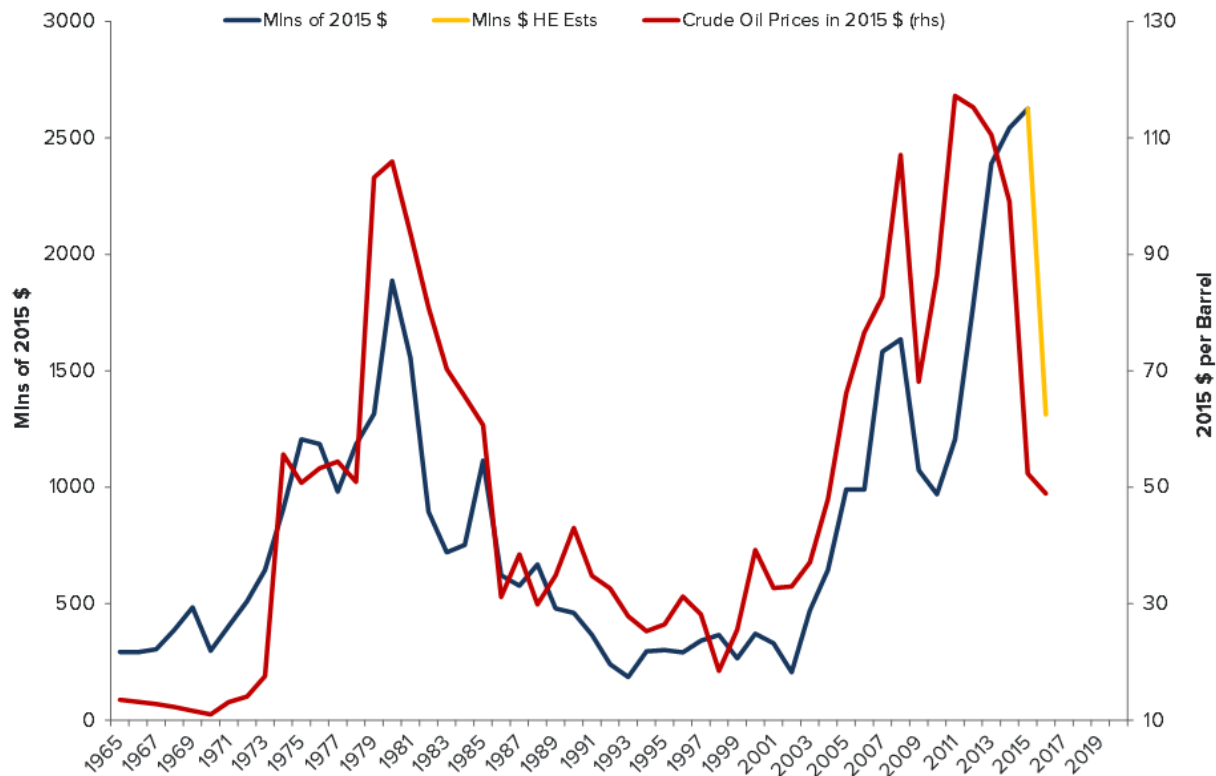
IF YOU WIN IT, IT IS THE GRAND PRIZE

FUTURE VERTICAL LIFT (FVL)

- FVL is the future of helo aviation: replace 25 types of helos with 7 classes (scouts to mini C130s) 2028 to 2060
- Bell and BA/LMT team downselected to demo technology in 2017; probable Joint Medium Replacement for over 3000 H60s to begin production in 2028
- Bell's third gen tilt rotor demonstrator, V-280, is more mature and lower risk than BA/LMT coaxial with pusher/prop entry ("SB-1")
- FMS interest in FVL even higher than US; V-280 promises economical leap forward in tech and capability
- USMC wants tilt-rotor attack UAV in 2023. Bell offering V-247, a cut down V-280.
- For Army and foreign sales, V-280 promises V-22 capability at one third the price

DOLLAR VALUE OF SHIPMENTS WELL CORRELATED

U.S. Helicopter Shipments in 2015 \$ vs. Oil Prices in 2015 \$



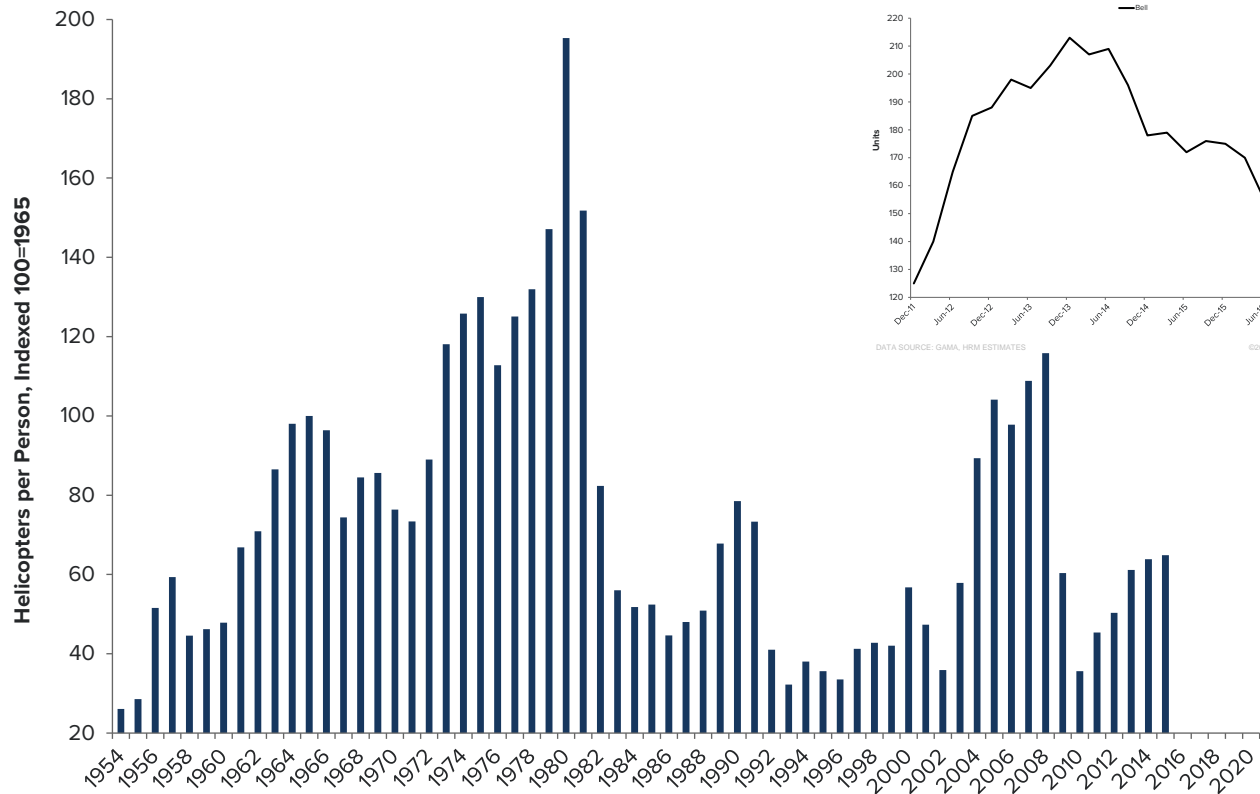
DATA SOURCE: COMPANY FILINGS, AIA AEROSPACE, BP, BLS, HRM ESTIMATES
*2016 ESTIMATED FROM COMPANY FILINGS, GAMA

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Not Quite What It Looks Like: 2016E market already down, and units paint a very different picture.

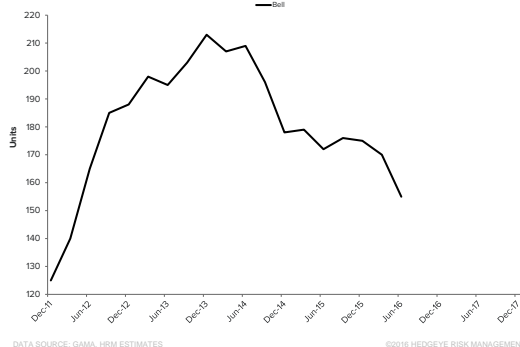
UNITS? NOT SO MUCH

U.S. Civil Helicopter Shipments (Units) per Capita



DATA SOURCE: COMPANY FILINGS, AIA AEROSPACE, CENSUS BUREAU, HRM ESTIMATES

GLOBAL CIVIL HELICOPTER SHIPMENTS



DATA SOURCE: GAMA, HRM ESTIMATES

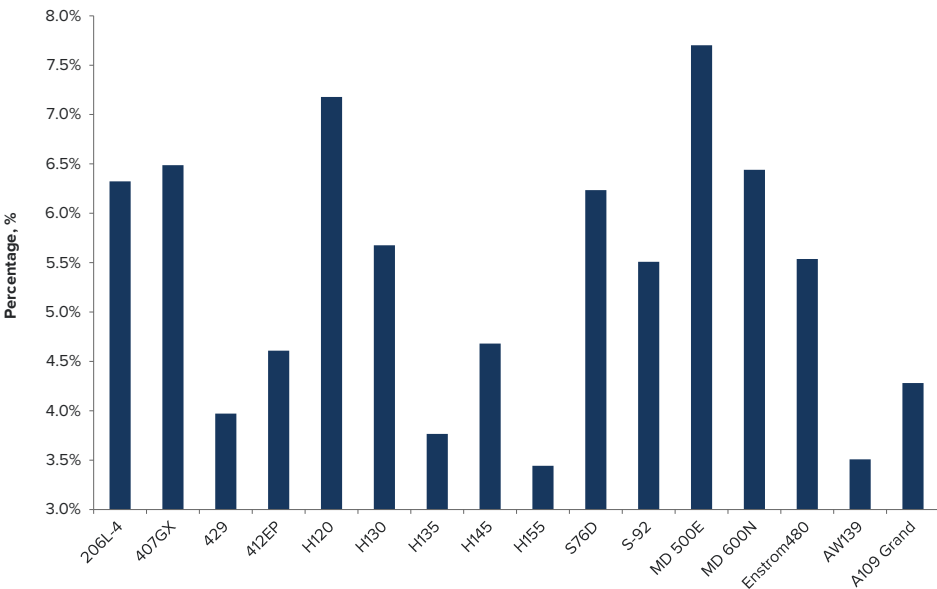
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Units Less Peak-Like:
Unit shipments only appear slightly above replacement demand

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UNITS VS SALES: IMPACT OF PRICING, MIX

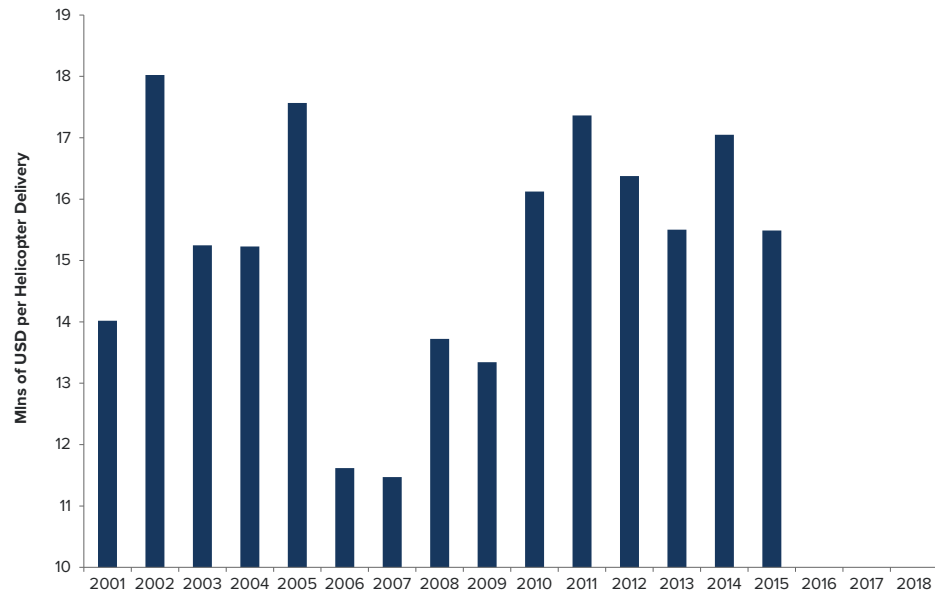
10 YEAR LIST PRICE CAGR BY HELICOPTER



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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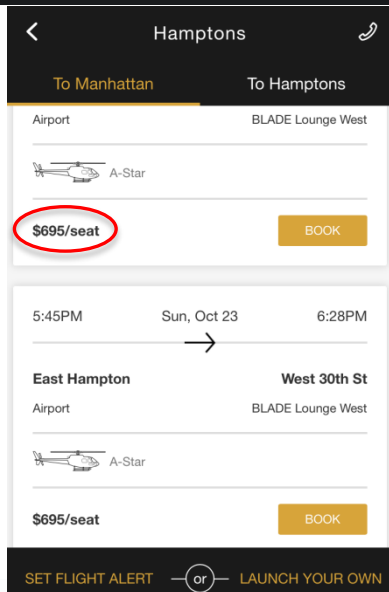
TXT Bell Revenue per Delivery



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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HELO HAILING APPS MARKET EXPANDING?



Posted by Team BLADE on October 4, 2016

BLADE was the very first aviation to company to deploy crowdsourcing in the aviation business. Today, crowdsourcing flight is core to the BLADE experience.

BLADE flyers can launch flights to numerous destinations in a variety of helicopters or turboprop planes and market their flight to over 100,000 BLADE app users.

Another Uber-for-Helicopters Takes Off in NYC

For around \$200, get to JFK or Newark in six minutes

By Jordyn Taylor • 03/13/15 10:30am



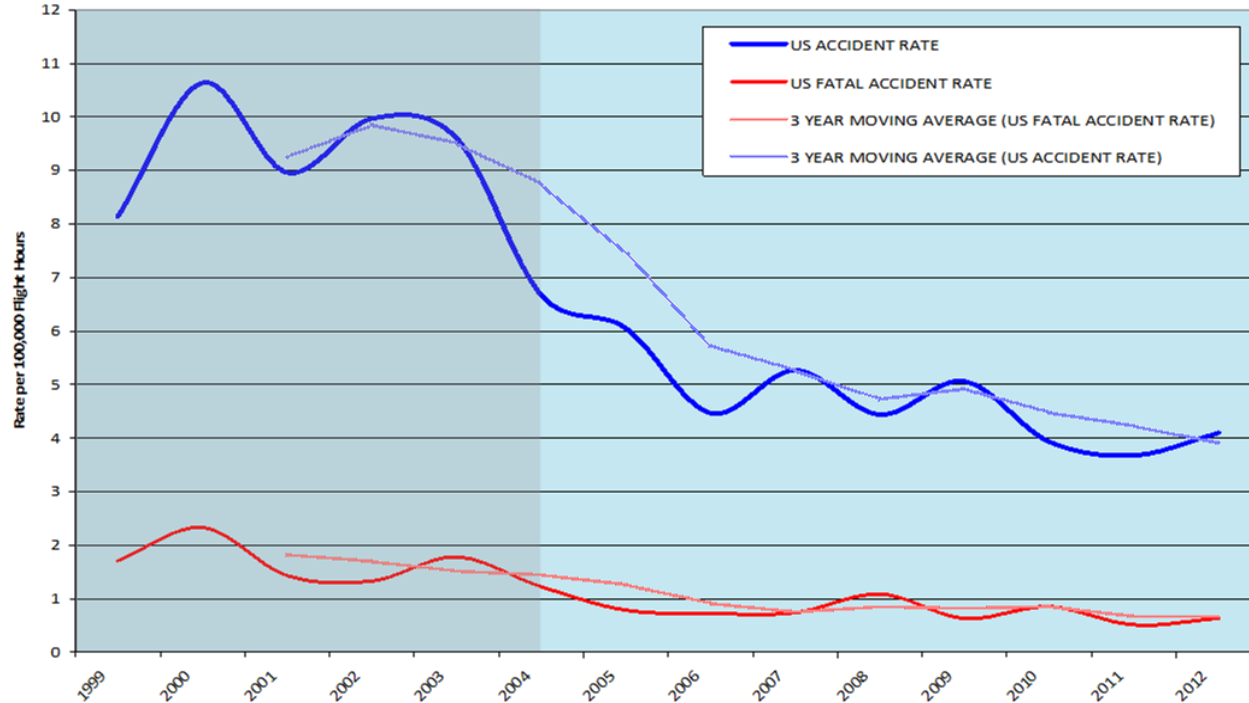
<http://observer.com/2015/03/another-uber-for-helicopters-takes-off-in-nyc/>

For The Merely Wealthy: Blade is making helicopter travel more accessible. For example, a June ride from East Hampton to Boston is much, much easier than the alternatives, and only costs about \$700.

HELO SAFETY HAS IMPROVED

U.S. Helicopter Total and Fatal Accident Rate 1999 – 2012 (Projected)

Source: NTSB and 2010 General Aviation and Part 135 Survey



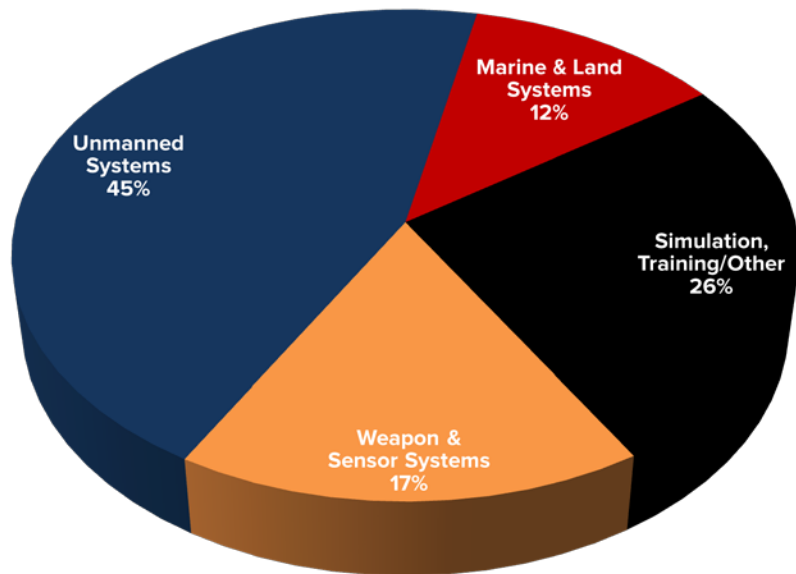
Fading deterrent
to regular use?



SYSTEMS SEGMENT

SYSTEMS MIX WILL CHANGE

TXT SYSTEMS 2015 SALES BY PRODUCT



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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CAN RESTRUCTURING TAKE MARGINS UP?

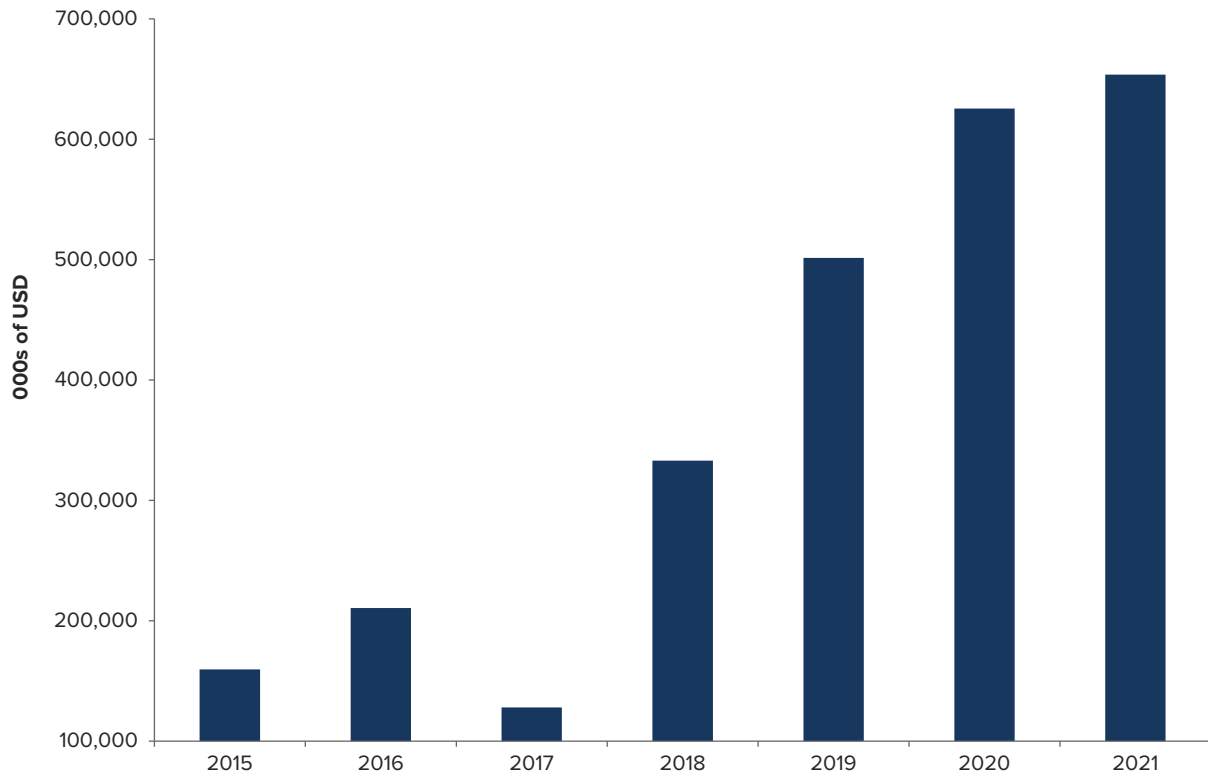
TXT SYSTEMS OPERATING MARGIN



Growing Platforms Can Help: As TXT impairs assets and closes less profitable lines, margins have room to move up.

SHIP-TO-SHORE PROGRAM VISIBILITY

Ship to Shore Connector Budget Spending



DATA SOURCE: DOD, HRM ESTIMATES

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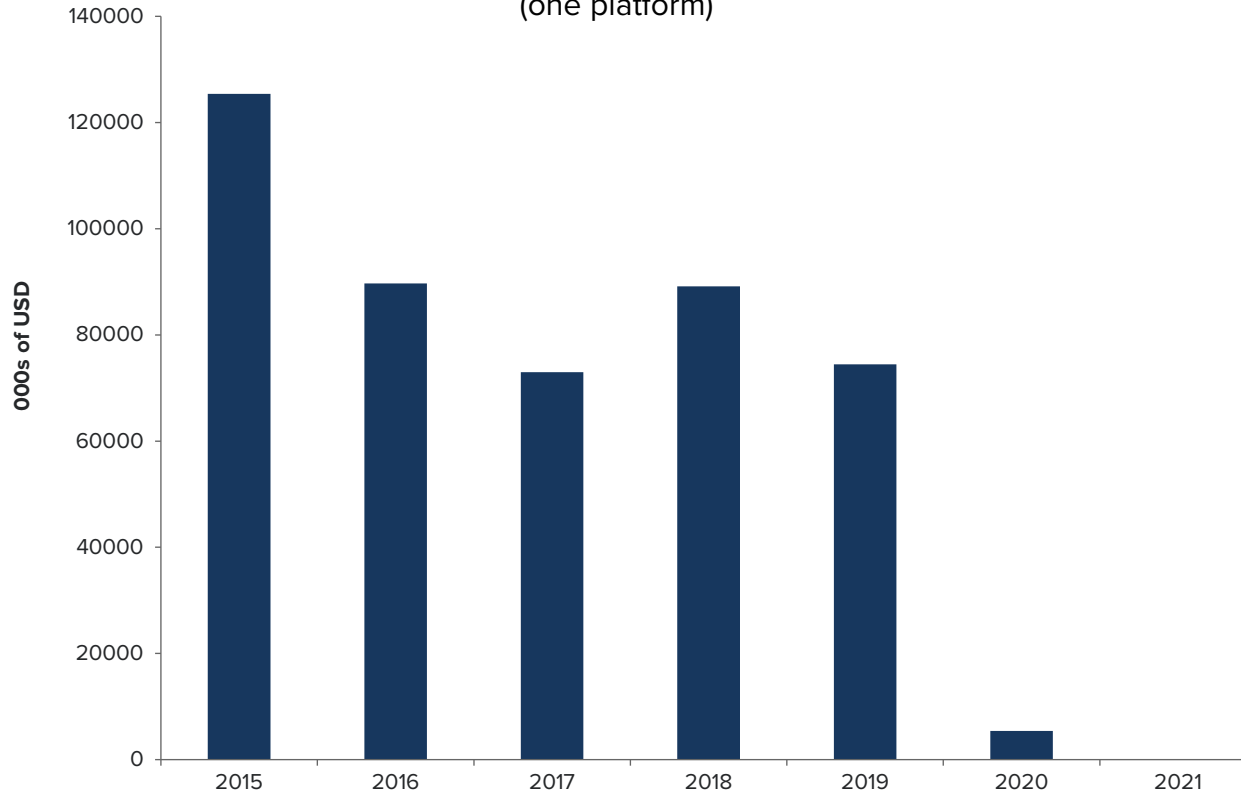
Not On Block, Foreign Military Sales Likely: Not near-term, but could be fms from countries like Israel, Saudi Arabia, Australia, Qatar, Japan potentially interested.

Quite Large For Segment: This platform could become a significant driver of a segment that has had 1.7 billion in revenue over the last four quarters.

UAVS ALSO EXPANDING

RQ-7 Shadow UAV Budget Spending

(one platform)



DATA SOURCE: DOD, HRM ESTIMATES

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Competitive market on verge of expansion. Potential 'Loyal Wingmen' for jets.

Commercial market could also emerge given recent FAA rules.



TEXTRON INDUSTRIAL

INDUSTRIAL: GOOD, BUT WHY HERE?

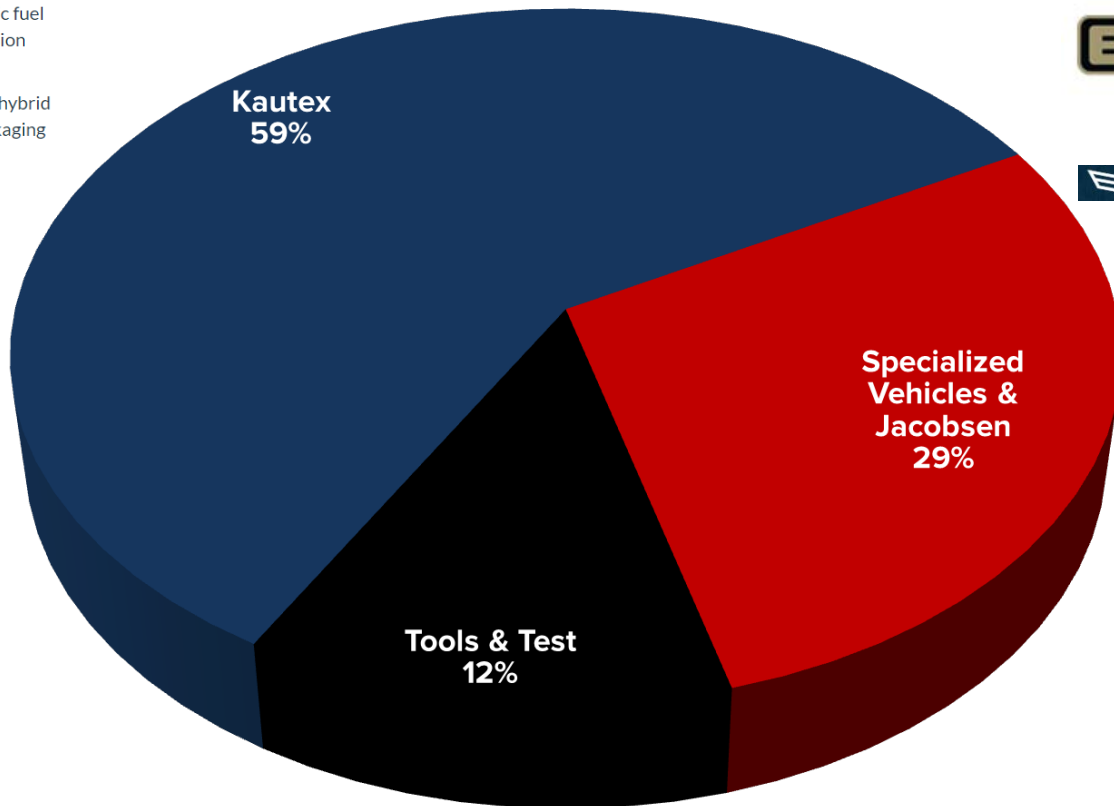
Kautex, a subsidiary of Textron Inc., is rated among the top 100 automotive suppliers worldwide. We operate in 16 countries around the globe where we develop and produce plastic fuel tank systems, emission reduction systems and clear vision systems.

Storage systems for new powertrain technologies, e.g. hybrid fuel tank systems, as well as camshafts and plastic packaging also feature in our varied range of products.

(e.g.)

- Bending
- Bolt Cutters
- Cable Termination
- CATV/Broadband Instruments
- Connectors
- Electric Test Instruments
- Fasteners
- Fiber Connections
- Fiber Optic Instruments
- Fishing
- Hydraulic Tools
- Knockout Sets
- Material Handling
- Network Instruments
- Pipe Tools
- Power Tool Accessories
- Professional Hand Tools
- Pulling
- Safety Products
- Storage
- Telco Instruments
- VDV Instruments
- VDV Termination
- VDV Tools
- Wire Termination

TXT INDUSTRIAL 2015 SALES BY PRODUCT



SIDE-BY-SIDE ▾

ATV ▾



Categories

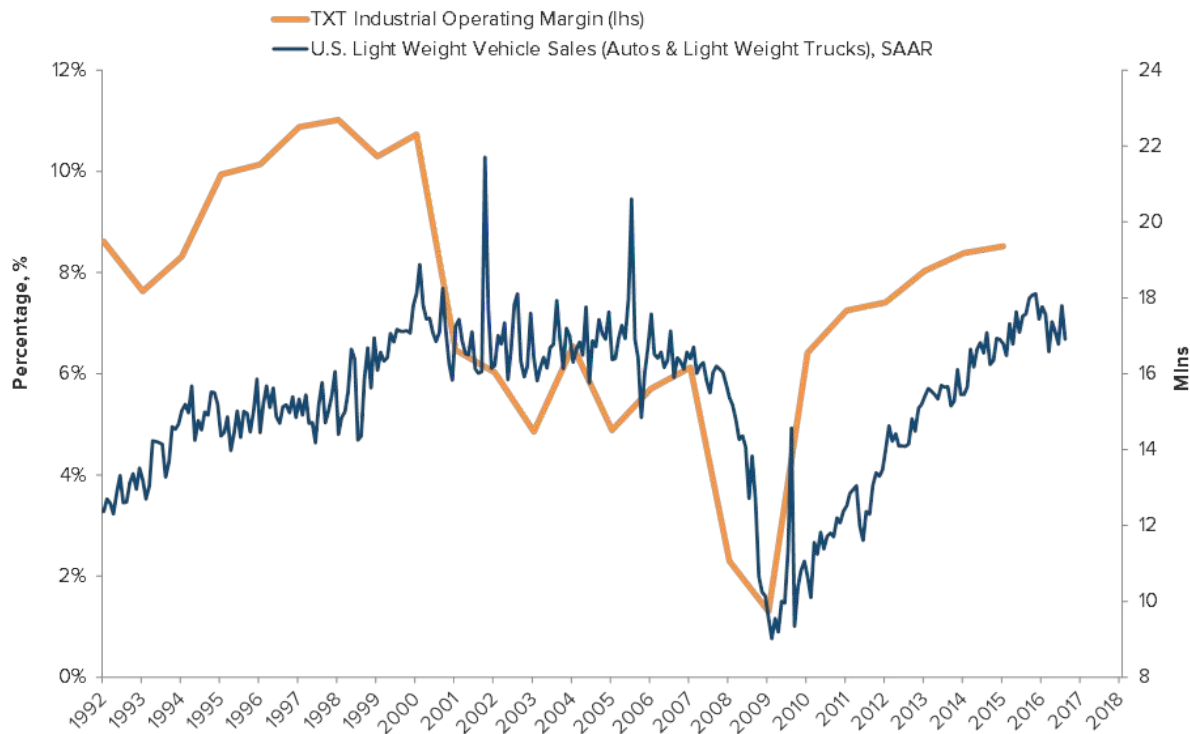
- Walk Behind Reel Mowers
- Small Area Reel Mowers
- Large Area Reel Mowers
- Contour Rotary Mowers
- Large Area Rotary Mowers
- Zero-Turn Mowers
- Specialty Mowers
- Utility Vehicles
- Sprayers
- Aerators
- Bunker/Infield Rakes
- Dethatchers

DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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SEGMENT MARGIN TENDS TO TRACK AUTOS

TXT INDUSTRIAL OPERATING MARGIN VS. AUTO SALES



DATA SOURCE: COMPANY FILINGS, FEDERAL RESERVE, HRM ESTIMATES

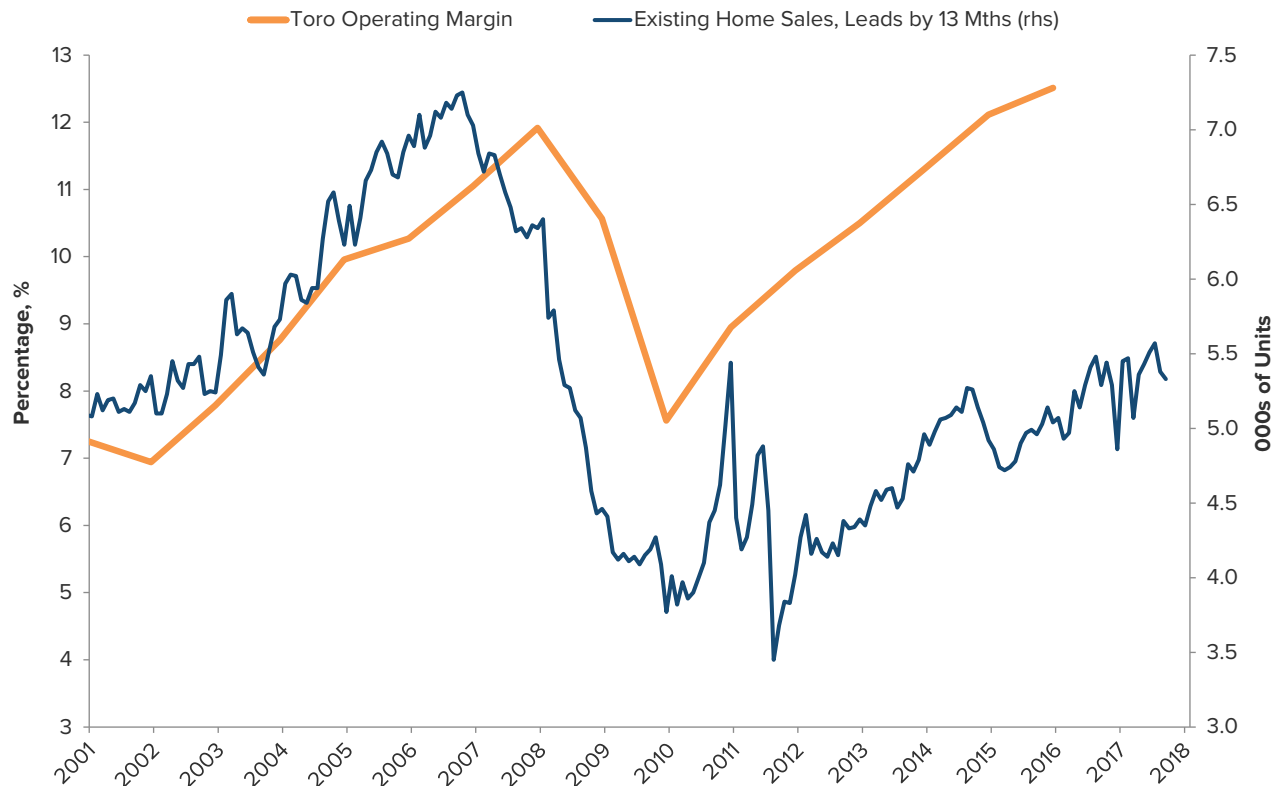
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Revenues dominated by global auto sales through supply of Fuel Systems and Functional Components. While a leading plastic fuel tank system supplier, not a top auto component supplier.

More Revenue Than Biz Jets, Just Less Profitable: At ~2.1 billion in sales, Kautex is a key segment.

GOLF & LAWN CARE CORRELATED TO HOUSING

TORO OPERATING MARGIN VS. EXISTING HOME SALES



DATA SOURCE: COMPANY FILINGS, BLOOMBERG, HRM ESTIMATES

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Move Neighborhoods?

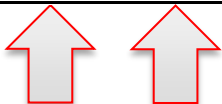
This business would probably have a more strategic home at TTC, BGG, or really anywhere other than an aerospace/defense company.

HARD TO FIND COMPS BECAUSE...


TXT Industrials Comp Table (October 2016)

Business	2015 Sales	Comp Low	Comp High	Op Margin Low	Op Margin High	Adj EV/S Low	Adj EV/S High	Implied EV Low	Implied EV High
Kautex	2,074	Magna	Borg Warner	7%	12%	0.57	1.19	1,182	2,468
Specialized Vehicles	1,021	Polaris	Toro	16%	13%	1.16	2.17	1,184	2,216
Tools & Test Equipment	445	Fluke DHR	Snap-on	n/m	21%	1.45	3.62	647	1,611
							Total	3,013	6,295

Data Source: Company Filings, HRM Estimates



Industrial had an 8.5% Segment margin – could these businesses fit better elsewhere?



Divestiture, spin-off may unlock value and provide focus. In a sale, proceeds could be redeployed toward core franchises.

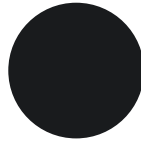
...these are businesses that are typically part of larger companies focused on these markets.

RESTRUCTURE/RETHINK INDUSTRIAL



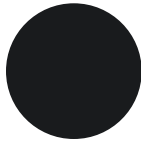
DO THESE UNITS BELONG IN AN A&D COMPANY?

We suspect the market applies a conglomerate discount to what are otherwise well-positioned units.



WOULD THESE BE MORE PROFITABLE ELSEWHERE?

It is reasonable to assume that a large auto supplier, lawn/turf equipment manufacturer, or tool company could integrate these businesses into a related business.



MEANINGFUL VALUE TIED UP

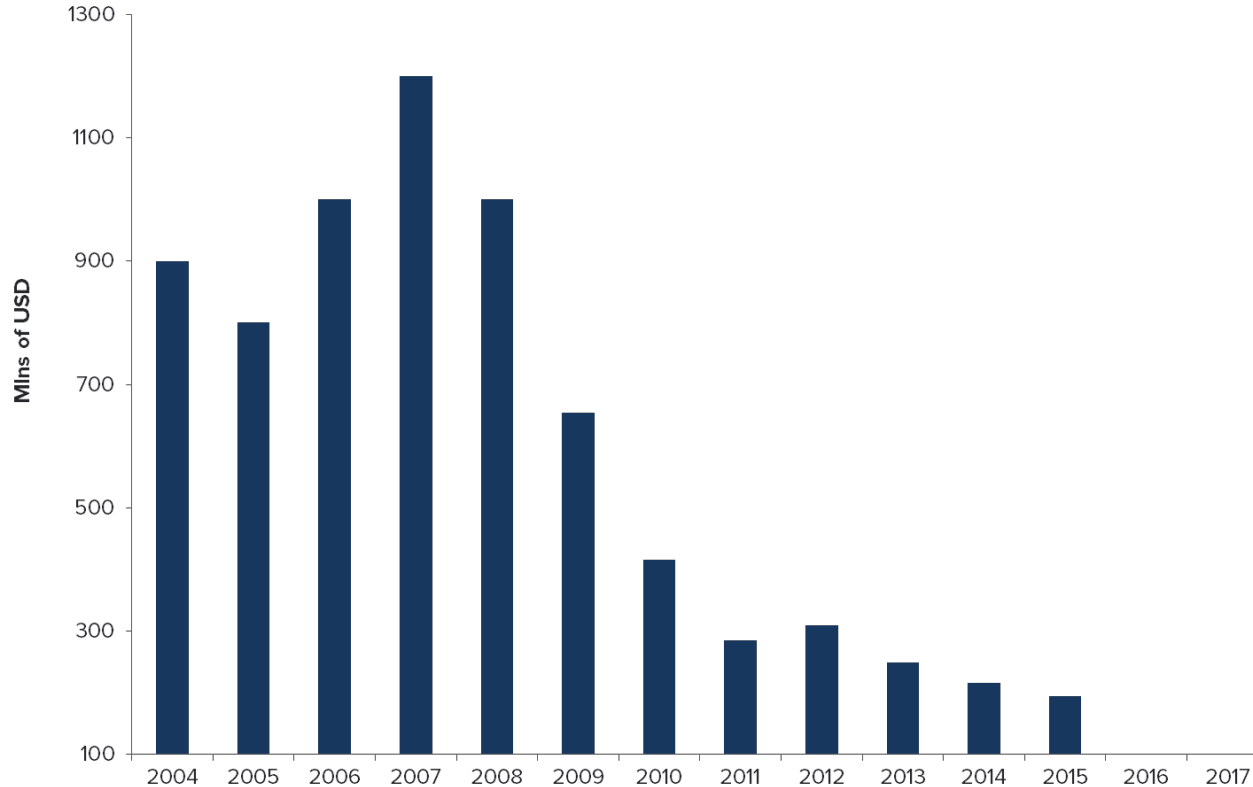
Even the low end of the valuation range suggests about 1/3 of TXT's market cap for less than a quarter of operating income. That value could be redeployed to the core A&D franchise.

The background of the slide features a blurred, close-up view of interlocking metal gears. The gears are arranged in a circular pattern, with the teeth of the gears visible. The lighting is soft, creating a sense of depth and motion. The overall color palette is muted, with shades of grey, blue, and brown.

FINANCE SEGMENT

LESS RELEVANCE

TXT Finance Group Payments to Manufacturing Group



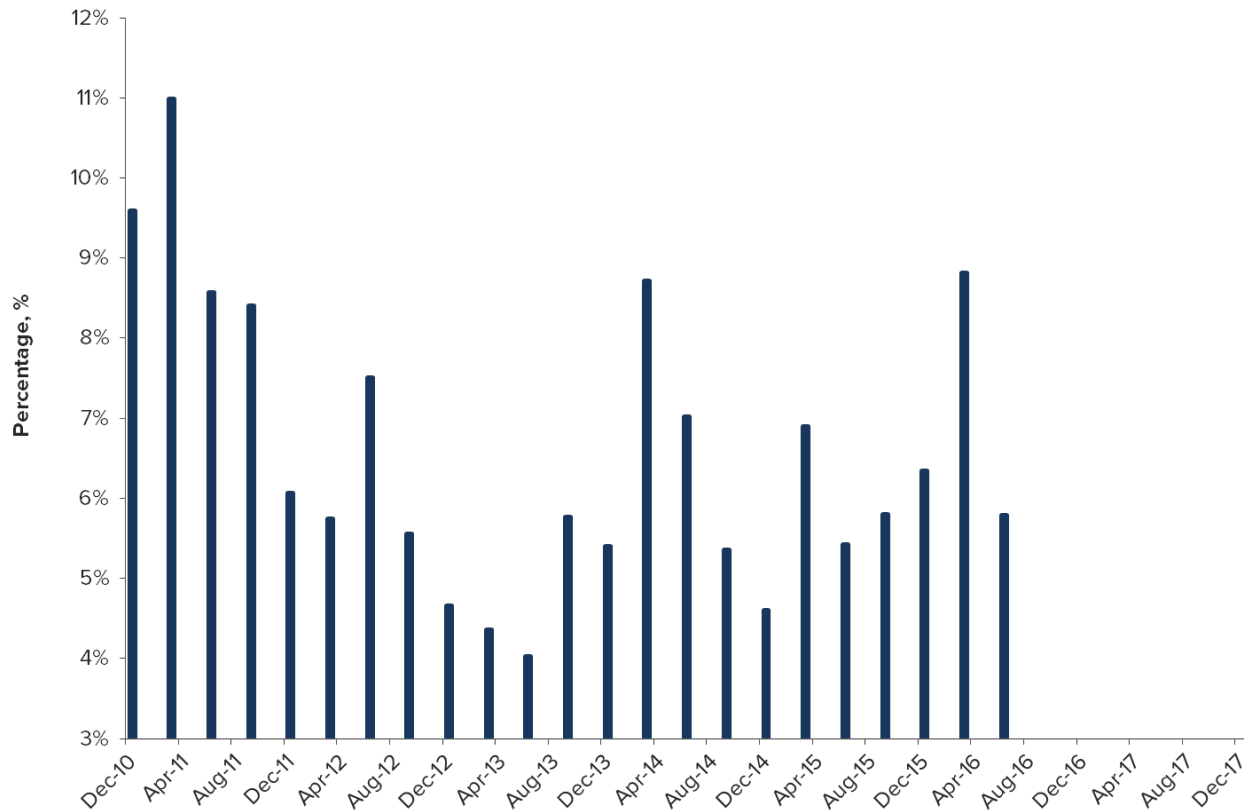
DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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This segment mattered most about a decade ago.

PAST DUES DECREASING

TXT 60+ Days Past Due as % of Net Finance Receivables



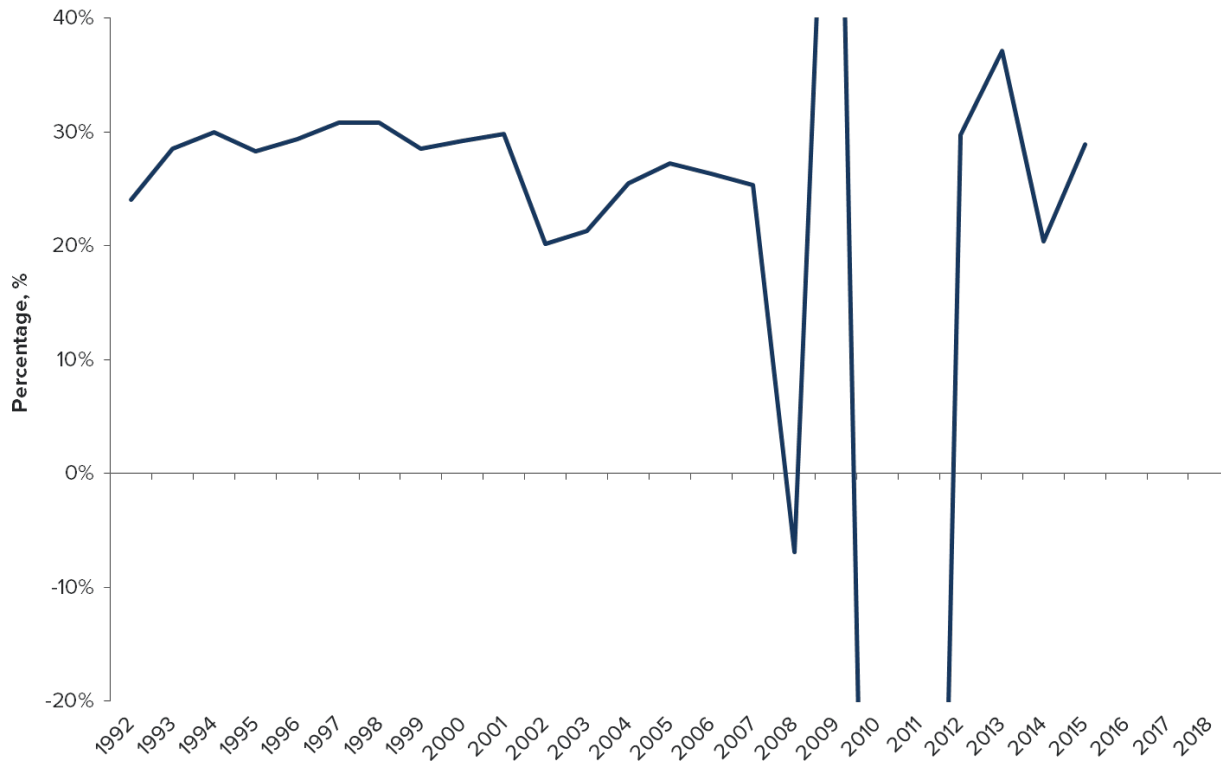
DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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A bit high, but trend not remarkable.

VALUATION OVERHANG PROBABLY REMAINS

TXT FINANCE OPERATING MARGIN



DATA SOURCE: COMPANY FILINGS, HRM ESTIMATES

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Some of what Textro Finance unwound in the financial crisis was challenging.

Five Year Comparison

(All dollar figures in thousands except amounts per share)

	1969	1968	1967	1966	1965
Net Sales					
Historical	\$ 1,682,171	\$ 1,704,097	\$ 1,445,985	\$ 1,132,174	\$ 850,957
Restated for poolings of interests . .	—	1,725,214	1,590,157	1,416,709	1,134,947
Income Before Federal Income Taxes . .					
Historical	151,672	152,900	117,136	84,713	58,889
Restated for poolings of interests . .	—	156,962	138,755	128,402	103,014
Net Income					
Historical	76,122	73,999	61,526	43,913	29,139
Restated for poolings of interests . .	—	75,989	72,938	66,290	52,063
Net Income Per Common Share*					
Historical	2.14	2.10	2.02	1.67	1.22

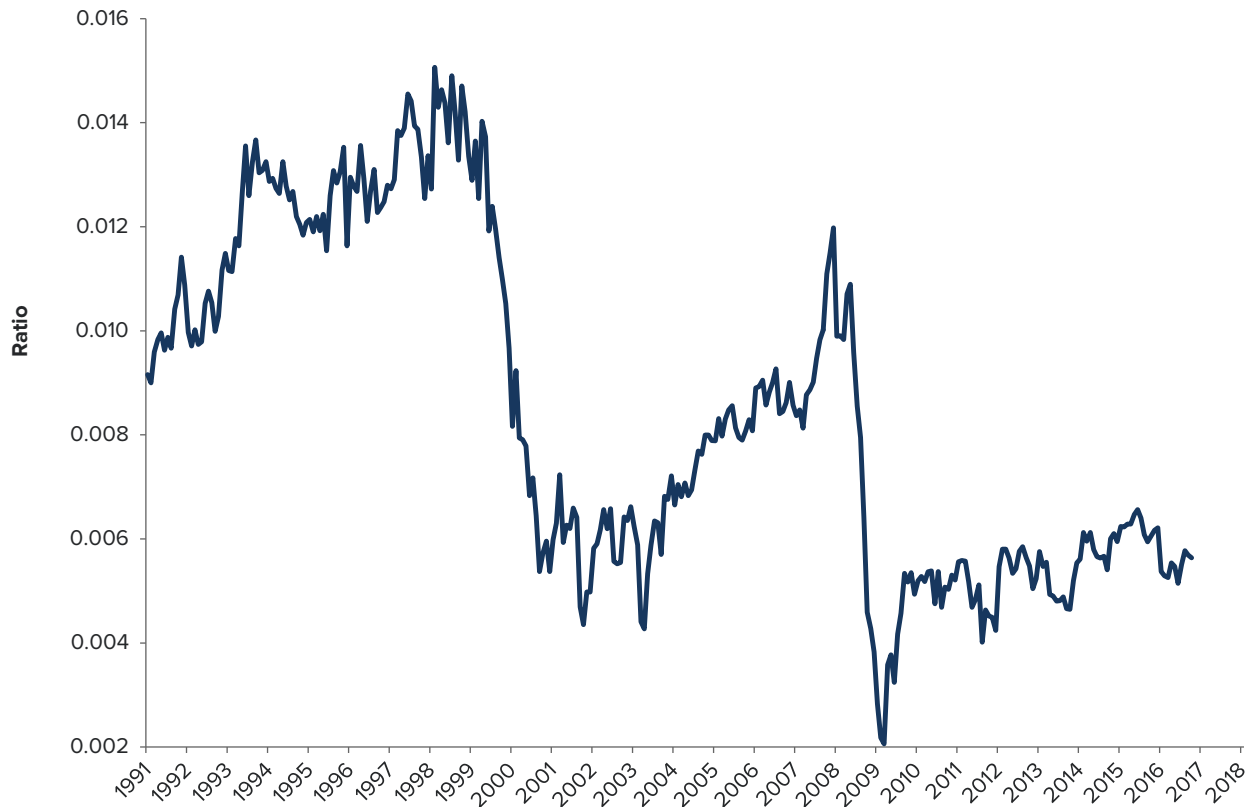
VALUATION, RISKS, CONCLUSION

Restated for poolings of interests . .	—	36,202,815	36,143,144	36,391,775	36,515,078
--	---	------------	------------	------------	------------

* Based on average common shares outstanding, adjusted for stock splits and assuming that all preferred shares were converted into common stock and warrants and stock options were exercised.

RELATIVE PERFORMANCE

TXT Relative Market Cap to S&P Industrials



DATA SOURCE: BLOOMBERG, HRM ESTIMATES

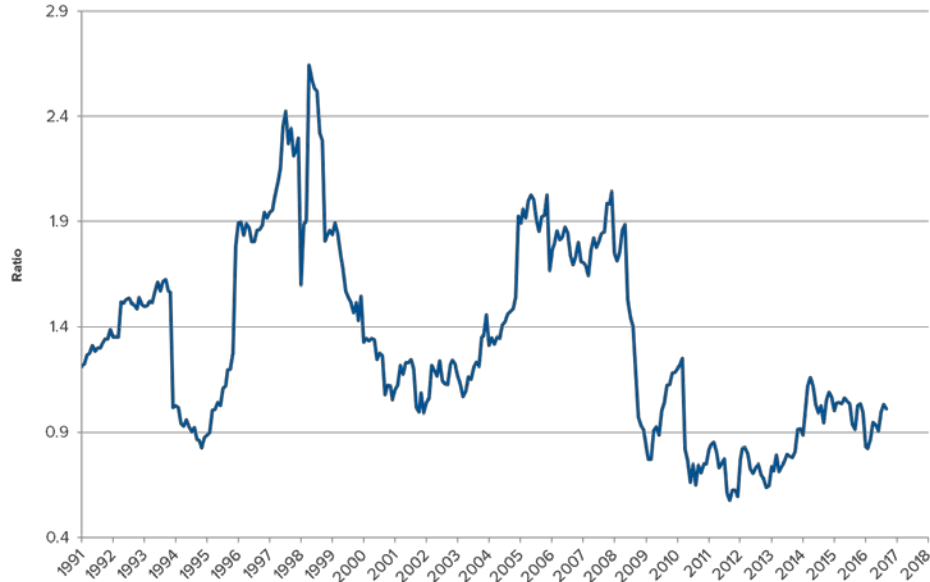
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Underappreciation may be coming to an end with promising programs and platforms.

**Note: Use of market cap to correct for share issuance in 2Q 2009.*

NOT BAD RELATIVE TO HISTORICAL RANGE

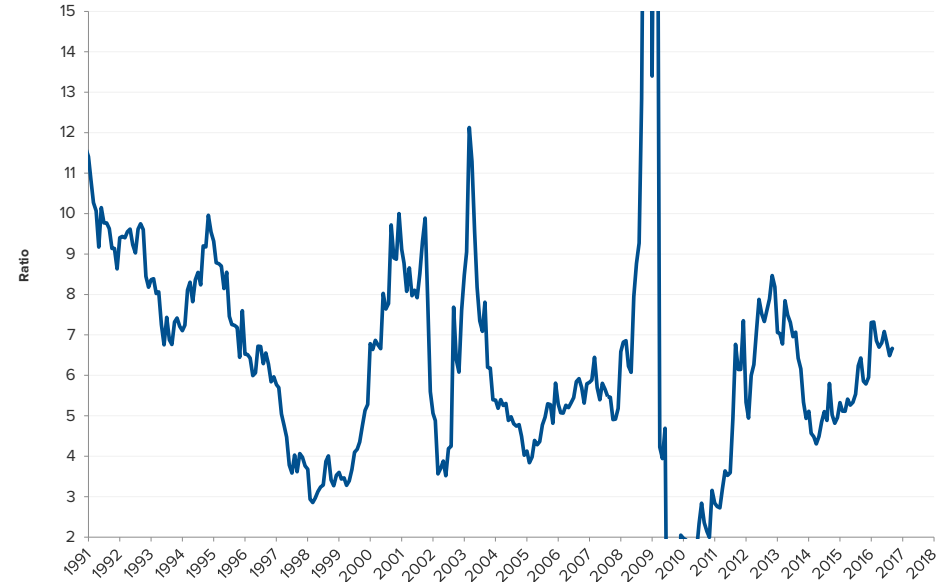
TXT EV/Sales



DATA SOURCE: BLOOMBERG, HRM ESTIMATES

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TXT Earnings Yield

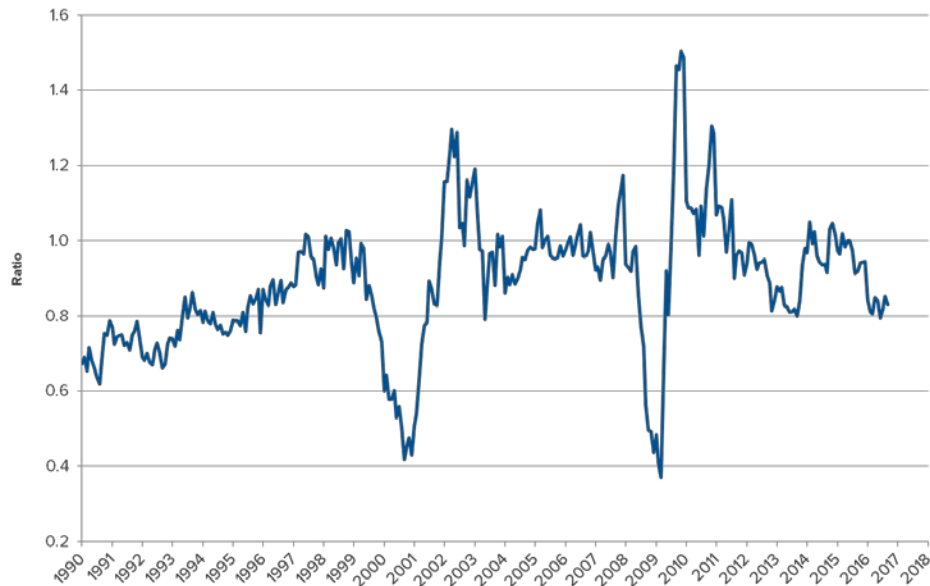


DATA SOURCE: BLOOMBERG, HRM ESTIMATES

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SECTOR RELATIVE MULTIPLES NEAR LOCAL LOWS

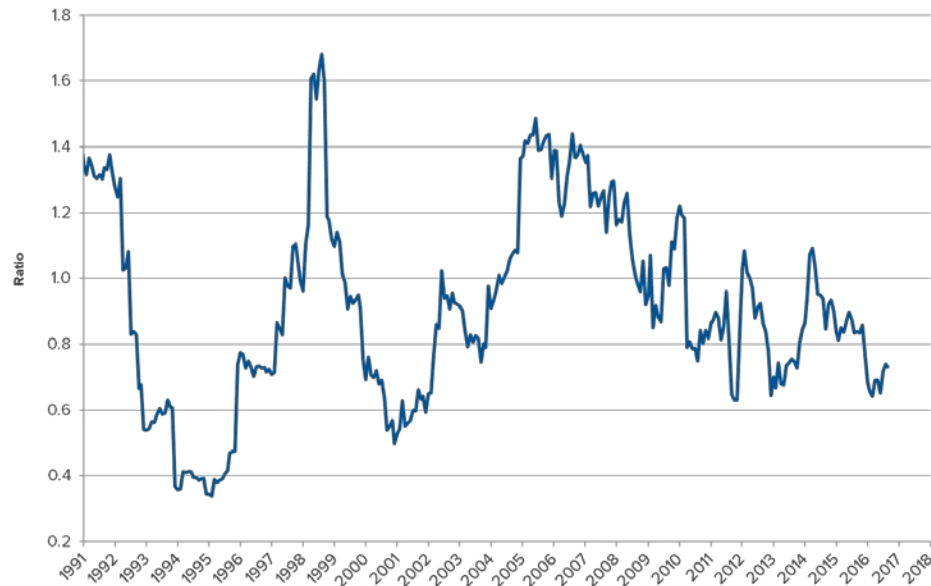
TXT Rel Forward P/E to S&P Industrials



DATA SOURCE: BLOOMBERG, HRM ESTIMATES

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TXT EV/EBITDA Relative to S&P Industrials



DATA SOURCE: BLOOMBERG, HRM ESTIMATES

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SUM OF THE PARTS INDICATES POTENTIAL VALUE

Textron SOTP Table (October 2016)						
Textron Segments	Aviation	Bell	Systems	Industrial	Finance	
Sales	4,822	3,454	1,520	3,544	83	
EBIT	412	400	129	302	24	
EBITDA	546	543	209	378	36	
EBIT Margin	9%	12%	8%	9%	29%	
EBTIDA Margin	11%	16%	14%	11%	43%	
Comps	Dassault	Sikorsky Deal	GD	Industrials**	Book Value*	
EV / Sales	1.95	1.38	1.54	1.31		
EV / EBITDA	19.74	13.00	10.31	8.61		
						Total
Implied EV from Sales	9,403	4,782	2,341	4,659	1,316	22,501
Implied EV from EBITDA	10,778	7,059	2,155	3,253	1,316	24,561
Average Implied						23,531
<i>*Finance business valued at book</i> <i>**Industrials uses MGA, BWA, TTC, SNA, PII, Fluke (DHR) comps</i>				TEXTRON		
				Debt		2,697
				Cash		946
				Market Cap		21,780
				Implied Share Price		\$81
Data Source: Company Filings, HRM Estimates						

TXT Doesn't Need To Trade Anywhere Close: While we appreciate the limits of this approach, it does point to a fairly substantial differential in price.

ADDING IT UP: 'A' SEGMENT MODEL

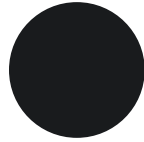
Textron Inc (TXT) "A" Model Not "The" Model (October 2016)													
In mlns of USD except Per Share	FY2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY2015	Q1 2016	Q2 2016	Q3 2016E	Q4 2016E	FY2016E	FY2017E	FY2018E
Total Revenue	13,878	3,073	3,247	3,180	3,923	13,423	3,201	3,511	3,430	4,041	14,110	14,595	15,388
Consensus Revenue									3,416	4,038	14,161	14,393	14,989
Aviation	4,568	1,051	1,124	1,159	1,488	4,822	1,091	1,196	1,276	1,563	5,054	5,299	5,646
Aircraft sales	3,182	683	776	811	1,070	3,340	709	801	882	1,090	3,483	3,664	3,947
Aftermarket	1,386	368	348	348	418	1,482	382	395	394	473	1,571	1,634	1,700
Bell	4,245	813	850	756	1,035	3,454	814	804	851	1,039	3,508	3,642	3,736
V-22 Program	1,771	296	297	235	366	1,194	278	313	364	468	1,423	1,500	1,560
Commercial	1,614	299	346	349	427	1,421	283	274	308	319	1,184	1,233	1,258
Other military	860	218	207	172	242	839	253	217	179	252	901	910	919
Systems	1,624	315	322	420	463	1,520	324	487	430	474	1,716	1,746	2,020
Industrial	3,338	872	927	828	917	3,544	952	1,004	853	945	3,753	3,828	3,905
Fuel Systems & Functional Components	1,975	513	526	485	554	2,078	580	592	500	571	2,242	2,287	2,332
Other Industrial	1,363	359	401	343	363	1,466	372	412	353	374	1,511	1,541	1,572
Finance	103	22	24	17	20	83	20	20	20	20	80	80	80
Segment Profit	1,214	259	306	312	378	1,255	280	328	382	418	1,409	1,544	1,721
Textron Aviation	529	67	88	107	138	400	73	81	142	161	457	518	587
Bell	280	76	101	99	124	400	82	81	123	125	411	465	550
Textron Systems	150	28	21	39	41	129	29	60	42	44	176	191	208
Industrial	234	82	86	61	73	302	91	99	68	81	340	343	350
Finance	21	6	10	6	2	24	5	7	7	7	26	26	26
Segment Margin	8.7%	8.4%	9.4%	9.8%	9.6%	9.3%	8.7%	9.3%	11.1%	10.4%	10.0%	10.6%	11.2%
Textron Aviation	11.6%	6.4%	7.8%	9.2%	9.3%	8.3%	6.7%	6.8%	11.1%	10.3%	9.0%	9.8%	10.4%
Bell	6.6%	9.3%	11.9%	13.1%	12.0%	11.6%	10.1%	10.1%	14.4%	12.0%	11.7%	12.8%	14.7%
Textron Systems	9.2%	8.9%	6.5%	9.3%	8.9%	8.5%	9.0%	12.3%	9.8%	9.4%	10.2%	11.0%	10.3%
Industrial	7.0%	9.4%	9.3%	7.4%	8.0%	8.5%	9.6%	9.9%	8.0%	8.6%	9.1%	9.0%	9.0%
Finance	20.4%	27.3%	41.7%	35.3%	10.0%	28.9%	25.0%	35.0%	34.5%	35.0%	32.4%	32.4%	32.4%
Income from continuing operations	605	128	169	176	225	698	151	178	219	229	776	860	970
EPS	\$2.17	\$0.46	\$0.60	\$0.63	\$0.81	\$2.50	\$0.55	\$0.66	\$0.81	\$0.85	\$2.87	\$3.21	\$3.73
Consensus EPS									\$0.82	\$0.83	\$2.84	\$2.94	\$3.26

Data Source: Company Filings, HRM Estimates

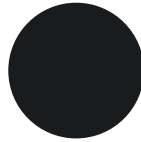
SOME RISKS – WHERE WE COULD BE WRONG

- **Loss of Market Share in Key Businesses**
- **Technology Advancements by Competitors**
- **Customer Cancellations**
- **Weak Dollar (can make foreign purchases more expensive, but can also shift foreign purchases toward cheaper platforms like Cobra)**
- **Volatile Movements in Raw Materials Prices, Interest Rates, and Currencies**
- **DoD Continuing to Pressure Suppliers to Take on More Contract Risks (Fixed-Price Incentive Arrangements Versus Traditional Fixed-Price Contracts)**
- **U.S. Government (Among Other Countries) Decrease Defense Spending**
- **Worsening Economic Conditions Impact on Aviation & Industrial Products**
- **Finance Segment's Credit Quality Deteriorates**
- **Demonstrations Do Not Go As Planned**

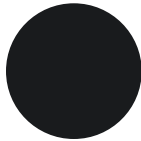
UPSHOT: LOOKS CAN BE DECEIVING



DEFENSE SPENDING ENVIRONMENT SUPPORTIVE, WITH SEVERAL KEY TXT PLATFORMS LIKELY TO SEE IMPORTANT LONG-TERM WINS



COMMERCIAL IS NOT AS BAD AS SOME FEAR, AS PRODUCT INTRODUCTIONS ARE OFFSETTING SOFT MARKET CONDITIONS. IMPORTANTLY, COMMERCIAL DOESN'T LOOK LIKE A CYCLE PEAK



VALUATION ATTRACTIVE WITH PENDING CATALYSTS. EXPECT NARRATIVE TO SHIFT FROM WEAK METRICS TO STRONG PLATFORM GROWTH AND PORTFOLIO TRANSFORMATION

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203.562.6500