

TEXTRON INC
Form 10-K
February 15, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____.

Commission File Number 1-5480

Textron Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

05-0315468
(I.R.S. Employer Identification No.)

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40 Westminster Street, Providence, RI
(Address of principal executive offices)

02903
(Zip code)

Registrant's Telephone Number, Including Area Code: **(401) 421-2800**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of Each Class</u> | <u>Name of Each Exchange on Which Registered</u> |
|--------------------------------|--|
| Common Stock par value \$0.125 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

(do not check if smaller reporting company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's Common Stock held by non-affiliates at July 1, 2017 was approximately \$12.5 billion based on the New York Stock Exchange closing price for such shares on that date. The registrant has no non-voting common equity.

At February 3, 2018, 261,771,970 shares of Common Stock were outstanding.

Documents Incorporated by Reference

Part III of this Report incorporates information from certain portions of the registrant's Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 25, 2018.

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Textron Inc.

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Textron Inc. is a multi-industry company that leverages its global network of aircraft, defense, industrial and finance businesses to provide customers with innovative products and services around the world. We have approximately 37,000 employees worldwide. Textron Inc. was founded in 1923 and reincorporated in Delaware on July 31, 1967. Unless otherwise indicated, references to Textron Inc., the Company, we, our and us in this Annual Report on Form 10-K refer to Textron Inc. and its consolidated subsidiaries.

We conduct our business through five operating segments: Textron Aviation, Bell, Textron Systems and Industrial, which represent our manufacturing businesses, and Finance, which represents our finance business. A description of the business of each of our segments is set forth below. Our business segments include operations that are unincorporated divisions of Textron Inc. and others that are separately incorporated subsidiaries. Financial information by business segment and geographic area appears in Note 16 to the Consolidated Financial Statements on pages 67 through 68 of this Annual Report on Form 10-K. The following description of our business should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 19 through 34 of this Annual Report on Form 10-K. Information included in this Annual Report on Form 10-K refers to our continuing businesses unless otherwise indicated.

Textron Aviation Segment

Textron Aviation is a leader in general aviation. Textron Aviation manufactures, sells and services Beechcraft and Cessna aircraft, and services the Hawker brand of business jets. The segment has two principal product lines: aircraft and aftermarket. Aircraft includes sales of business jets, turboprop aircraft, piston engine aircraft, and military trainer and defense aircraft. Aftermarket includes commercial parts sales, and maintenance, inspection and repair services. Revenues in the Textron Aviation segment accounted for 33%, 36% and 36% of our total revenues in 2017, 2016 and 2015, respectively. Revenues for Textron Aviation's principal lines of business were as follows:

| <i>(In millions)</i> | | 2017 | 2016 | 2015 |
|----------------------|----|-------------|-------------|-------------|
| Aircraft | \$ | 3,112\$ | 3,412\$ | 3,404 |
| Aftermarket | | 1,574 | 1,509 | 1,418 |
| Total revenues | \$ | 4,686\$ | 4,921\$ | 4,822 |

The family of jets currently produced by Textron Aviation includes the Citation M2, Citation CJ3+, Citation CJ4, Citation XLS+, Citation Latitude, Citation Sovereign+, and the Citation X+, the fastest civilian jet in the world. In addition, the new Citation Longitude, a super-midsize jet which achieved first flight in October 2016, is expected to enter into service in early 2018. Textron Aviation is also continuing the development of the Citation Hemisphere, a large-cabin jet.

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Textron Aviation's turboprop aircraft include the Beechcraft King Air C90GTx, King Air 250, King Air 350ER and King Air 350i, and the Cessna Caravan and Grand Caravan EX. The Cessna Denali, a high-performance single engine turboprop aircraft, is expected to achieve its first flight in 2018. In addition, Textron Aviation recently announced the Cessna Skycourier, a twin-engine, high-wing, large-utility turboprop aircraft, which is targeted for first flight in 2019. Textron Aviation's piston engine aircraft include the Beechcraft Baron and Bonanza, and the Cessna Skyhawk, Skylane, and the Turbo Stationair.

Textron Aviation also offers the T-6 trainer, which is used to train pilots from more than 20 countries, the AT-6 light attack military aircraft, and the Scorpion. The Scorpion is a highly affordable, multi-mission aircraft designed primarily for the tactical military jet aviation market. This aircraft is not yet in production, pending customer orders.

In support of its family of aircraft, Textron Aviation operates a global network of 18 service centers, two of which are co-located with Bell Helicopter, along with more than 350 authorized independent service centers located throughout the world. Textron Aviation-owned service centers provide customers with 24-hour service and maintenance. Textron Aviation also provides its customers with around-the-clock parts support and offers a mobile support program with over 60 mobile service units and several dedicated support aircraft. In addition, Able Aerospace Services, Inc., a subsidiary of Textron Aviation, also provides component and maintenance, repair and overhaul services in support of commercial and military fixed- and rotor-wing aircraft.

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Textron Aviation markets its products worldwide through its own sales force, as well as through a network of authorized independent sales representatives. Textron Aviation has several competitors domestically and internationally in various market segments. Textron Aviation's aircraft compete with other aircraft that vary in size, speed, range, capacity and handling characteristics on the basis of price, product quality and reliability, direct operating costs, product support and reputation.

Bell Segment

Bell Helicopter is one of the leading suppliers of military and commercial helicopters, tiltrotor aircraft, and related spare parts and services in the world. Revenues for Bell accounted for 23%, 23% and 26% of our total revenues in 2017, 2016 and 2015, respectively. Revenues by Bell's principal lines of business were as follows:

| <i>(In millions)</i> | | 2017 | 2016 | 2015 |
|----------------------|----|-------------|-------------|-------------|
| Military: | | | | |
| V-22 Program | \$ | 1,129\$ | 1,151\$ | 1,194 |
| Other Military | | 947 | 936 | 839 |
| Commercial | | 1,241 | 1,152 | 1,421 |
| Total revenues | \$ | 3,317\$ | 3,239\$ | 3,454 |

Bell supplies advanced military helicopters and support to the U.S. Government and to military customers outside the United States. Bell's primary U.S. Government programs are the V-22 tiltrotor aircraft and the H-1 helicopters. Bell is one of the leading suppliers of helicopters to the U.S. Government and, in association with The Boeing Company (Boeing), the only supplier of military tiltrotor aircraft. Tiltrotor aircraft are designed to provide the benefits of both helicopters and fixed-wing aircraft. Through its strategic alliance with Boeing, Bell produces and supports the V-22 tiltrotor aircraft for the U.S. Department of Defense (DoD), and also for Japan under the U.S. Government-sponsored foreign military sales program. The H-1 helicopter program includes a utility model, the UH-1Y, and an advanced attack model, the AH-1Z, which have 84% parts commonality between them. While the U.S. Marine Corps is the primary customer for H-1 helicopters, we also sell H-1 helicopters under the U.S. Government-sponsored foreign military sales program.

Bell is developing the V-280 Valor, a next generation vertical lift aircraft as part of the Joint Multi Role Technology Demonstrator (JMR-TD) initiative. The JMR-TD program is the science and technology precursor to the Department of Defense's Future Vertical Lift program. Aircraft designed through this initiative will compete to replace thousands of aging utility and attack helicopters for the U.S. Armed Forces over the next decade. The V-280 achieved its first flight in December 2017.

Through its commercial business, Bell is a leading supplier of commercially certified helicopters and support to corporate, offshore petroleum exploration and development, utility, charter, police, fire, rescue and emergency medical helicopter operators, and foreign governments. Bell produces a variety of commercial aircraft types, including light single- and twin-engine helicopters and medium twin-engine helicopters, along with other related products. The helicopters currently offered by Bell for commercial applications include the 407GXP, 412EP, 412EPI, 429, 429WLG, 505 Jet Ranger X and Huey II. In addition, the 525 Relentless, Bell's first super medium commercial helicopter, is expected to achieve certification in 2019.

For both its military programs and its commercial products, Bell provides post-sale support and service for an installed base of approximately 13,000 helicopters through a network of five Bell-operated service centers, four global parts distribution centers and over 100 independent service centers located in 35 countries. Collectively, these service sites offer a complete range of logistics support, including parts, support

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equipment, technical data, training devices, pilot and maintenance training, component repair and overhaul, engine repair and overhaul, aircraft modifications, aircraft customizing, accessory manufacturing, contractor maintenance, field service and product support engineering.

Bell competes against a number of competitors throughout the world for its helicopter business and its parts and support business. Competition is based primarily on price, product quality and reliability, product support, performance and reputation.

Table of Contents**Textron Systems Segment**

Textron Systems product lines consist of unmanned systems, marine and land systems, and simulation, training and other defense and aviation mission support products and services. Textron Systems is a supplier to the defense, aerospace and general aviation markets, and represents 13%, 13% and 11% of our total revenues in 2017, 2016 and 2015, respectively. This segment sells its products to U.S. Government customers and to customers outside the U.S. through foreign military sales sponsored by the U.S. Government and directly through commercial sales channels. Textron Systems competes on the basis of technology, contract performance, price, product quality and reliability, product support and reputation. Revenues by Textron Systems product lines were as follows:

| <i>(In millions)</i> | | 2017 | 2016 | 2015 |
|--------------------------------|----|-------------|-------------|-------------|
| Unmanned Systems | \$ | 714\$ | 763\$ | 686 |
| Marine and Land Systems | | 470 | 294 | 188 |
| Simulation, Training and Other | | 656 | 699 | 646 |
| Total revenues | \$ | 1,840\$ | 1,756\$ | 1,520 |

Unmanned Systems

Our Unmanned Systems product line includes the offerings of the Unmanned Systems and Support Solutions businesses. The Unmanned Systems business has designed, manufactured and fielded combat-proven unmanned aircraft systems for more than 25 years. This business's products include the U.S. Army's premier tactical unmanned aircraft system, the Shadow, which has surpassed one million flight hours since its introduction, and the Aerosonde Small Unmanned Aircraft System, a multi-mission capable unmanned aircraft system that has amassed more than 200,000 flight hours in commercial and military operations around the world. In addition, its unmanned aircraft and interoperable command and control technologies provide critical situational awareness and actionable intelligence for users worldwide. Our Support Solutions business provides logistical support for various unmanned systems as well as training and supply chain services to government and commercial customers worldwide.

Marine and Land Systems

Our Marine and Land Systems product line includes advanced marine craft, armored vehicles, turrets and related subsystems, in service with U.S. and international militaries, special operations forces, police forces and civilian entities. Marine and Land Systems' primary U.S. Government program is for the development and production of the U.S. Navy's next generation Landing Craft Air Cushion as part of the Ship-to-Shore Connector program.

Simulation, Training and Other

Our Simulation, Training and Other product line includes products and services from five businesses: TRU Simulation + Training, Textron Airborne Solutions, Electronic Systems, Lycoming, and Weapons and Sensors.

TRU Simulation + Training designs, develops, manufactures, installs, and provides maintenance of advanced flight training courseware and devices, including full flight simulators, for both rotary- and fixed-wing aircraft for commercial airlines, aircraft original equipment manufacturers (OEMs), flight training centers and training organizations worldwide. Through its training centers, TRU Simulation + Training provides initial type-rating and recurrency training for pilots, as well as maintenance training in its Aviation Maintenance Training Academy. Textron Airborne Solutions, which includes Airborne Tactical Advantage Company, focuses on live military air-to-air and air-to-ship training and support services for U.S. Navy, Marine and Air Force pilots. Electronic Systems provides high technology test equipment, electronic warfare test and training solutions and intelligence software solutions for U.S. and international defense, intelligence and law enforcement

communities.

Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Weapons and Sensors offers advanced precision guided weapons systems, airborne and ground-based sensors and surveillance systems, and protection systems for the defense and aerospace industries.

Table of Contents**Industrial Segment**

Our Industrial segment designs and manufactures a variety of products within three principal product lines. Industrial segment revenues, which represented 30%, 28% and 26% of our total revenues in 2017, 2016 and 2015, respectively, were as follows:

| <i>(In millions)</i> | | 2017 | 2016 | 2015 |
|--|----|-------------|-------------|-------------|
| Fuel Systems and Functional Components | \$ | 2,330\$ | 2,273\$ | 2,078 |
| Specialized Vehicles | | 1,486 | 1,080 | 1,021 |
| Tools and Test Equipment | | 470 | | |