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Textron CEO Boosts Cessna, Bell Research for Rebound

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(Updates share price in ninth paragraph.)

By Susanna Ray and Rachel Layne

July 6 (Bloomberg) -- Textron Inc. Chief Executive Officer Scott Donnelly cut jobs and shrank the finance unit to steer the maker of Cessna jets and Bell helicopters through the recession. Now he's preparing for recovery with new aircraft.

New models and upgrades to existing aircraft may come as soon as 2012, said Donnelly, who is boosting spending on research at Bell by about 50 percent and by a lesser, unspecified amount at Cessna during the next two to three years. His timeline would fit a recovery in corporate flying that industry analysts and executives expect in 2011.

"The programs are there, the teams are working, so we're going full-speed ahead," Donnelly, 48, said in an interview at Textron's headquarters in Providence, Rhode Island. "You will see some refreshes, some block changes to some aircraft, and we also have a couple things in there that will be brand-new aircraft."

His push to keep spending bucks a nearly two-year slump in business aviation that exacerbated losses at Textron's finance unit, forcing him to cut 27 percent of the company's total workforce, shelve development of the eight-seat Columbus jet and fend off speculation he'd have to sell Bell or file for bankruptcy.

'Skating to the Puck'

Donnelly will display Cessna and Bell products at the Farnborough International Air Show near London this month as he tries to persuade investors that a turnaround is in place before demand for business jets revives. He has shifted development dollars from the larger Columbus to the small- and mid-sized jets at the heart of Cessna's lineup, where it faces new competition from Brazil's Empresa Brasileira de Aeronautica SA and old rivals such as Bombardier Inc.

"He's demonstrating patience and discipline in being willing to invest during the downturn," said Heidi Wood, an analyst with Morgan Stanley in New York, who has an "overweight" rating on the stock. "That's the right approach, because they're skating to where the puck is headed."

Research and development that isn't paid for by the U.S. government may increase to \$450 million this year from \$438 million in 2009, the company told investors in February.

Championing such increases is a familiar role for Donnelly, who led corporate research during more than two decades at General Electric Co. before coming to Textron as chief operating officer in 2008 and taking the top job at the end of 2009.

Investors have responded to his strategy, pushing the stock up more than fourfold from a record low of \$3.75 on March 6, 2009. Textron rose 21 cents, or 1.3 percent, to \$16.28 at 4:15 p.m. today in New York Stock Exchange composite trading.

'Ultimate Backstop'

To be sure, Donnelly faces challenges while implementing his strategy that include repaying money borrowed during the height of the financial crisis, plane sales that may be more than 50 percent lower this year than in 2008 and regaining market share Bell lost to a European rival.

The company had to draw down what it called its "ultimate backstop," \$3 billion in committed credit facilities, last year to survive. That money has to be paid back in 2012, and Donnelly said he will still need a couple of years to get debt "back to the place it ought to be" and pay "an appropriate level of dividend."

Donnelly said he's alleviated last year's "big concerns over liquidity" and is ahead of schedule in winding down the finance unit to only those pieces tied to manufacturing.

He expects net debt to drop below \$6 billion by the end of this year from \$7.4 billion at the end of 2009.

'Wild Card'

Cessna, which Donnelly refers to as "the wild card," typically doesn't see orders pick up until about eight quarters after corporate profits recover. This cycle looks no different, said Cessna CEO Jack Pelton.

Textron expects deliveries of 225 Cessna planes this year and 150 Bell commercial helicopters. Cessna turned over 289 aircraft to their owners in 2009, down from 476 a year earlier. Bell commercial-helicopter shipments declined to 153 last year from 169 in 2008.

"The recovery, as we see it, is following everything we had predicted," Pelton said. "We have felt the bottom, we're no longer free-falling, and we think that we will be flat this year and that by late next year we will start to see some growth."

New Models, Retrofits

Analysts and executives including John Saabas, who runs Pratt & Whitney Canada, the biggest maker of engines for small- and medium-sized business jets, say as planemakers climb out of the trough of 2010, they will need to entice customers with new models and major retrofits.

"Everyone expects Cessna will improve profitability," said Cai Von Rumohr, an analyst at Cowen & Co. who has a "neutral" rating on Textron. "Whether it's going to be going to prior margin peaks is still a question."

Bell and Cessna accounted for 32 percent and 27 percent, respectively, of Textron sales last year. In 2008, Bell made up 20 percent of revenue and Cessna supplied 40 percent, illustrating how quickly the business-jet market collapsed. Cessna sales tumbled 41 percent to \$3.32 billion as the planemaker cut more than 8,000 jobs, or half its workforce.

Bell, which has steady military contracts including the V-22 Osprey, lost market share in light- and medium-sized commercial helicopters to rival Eurocopter SAS over the past decade in part by betting on tilt-rotor technology for commercial aircraft, said Ray Jaworowski, an analyst at Newtown, Connecticut-based Forecast International.

'What We Have'

Donnelly said regaining that market share is the driver behind his boost in research funding. He views Cessna and Bell as the core of the company and has no plans to sell either one, or to make major moves such as exiting or entering markets.

"If you look at the history of this company, it's all around buying and selling," Donnelly said of Textron, which was founded as a textiles producer in 1923. "My focus is: We have what we have. How do you run it, and how do you run it well?"

Donnelly will need to use his operational skills to persuade investors to stick with Textron, said Morgan Stanley's Wood.

"There's so much low-hanging fruit in operations, and that's his forte," she said. "It's not something they've been heralded for in the past, so earning his badges from that standpoint will earn him the right in investors' minds to get more expansive in the future. You can't put the cart before the horse."

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