

Teledyne Technologies(TDY)

\$357.49 (As of 01/02/20)

Price Target (6-12 Months): **\$411.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/24/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

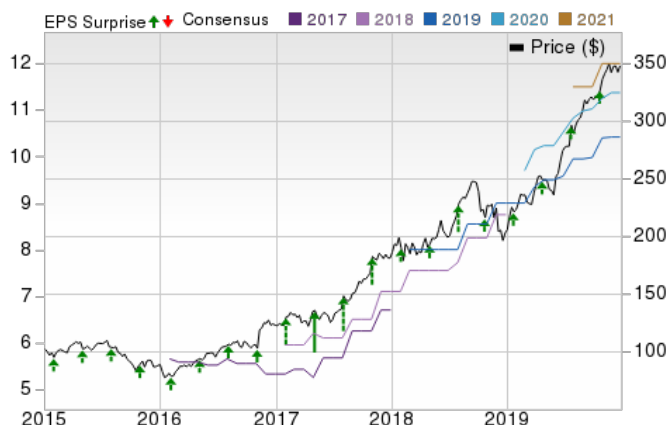
Growth: B

Momentum: D

Summary

Teledyne Technologies' shares have outperformed the industry in the past year. Solid backlog trends indicate impressive revenue growth prospects for Teledyne. Increasing spending provisions should drive order growth for defense contractors like Teledyne. Acquisitions of Micralyne as well as the gas and flame detection businesses are expected to boost the company's growth trajectory significantly. During the third quarter, Teledyne acquired the gas and flame detection business of 3M for \$230 million in cash, which should help it developing enhanced sophisticated instrumentation, digital imaging products and software, aerospace and defense electronics, and engineered systems. However, economic weakness is increasingly affecting China, which has made the company skeptical about its expansion in this country.

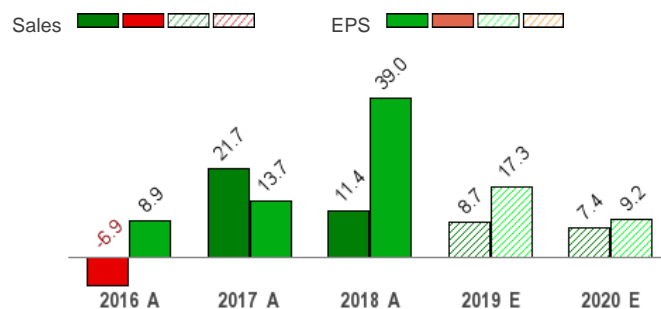
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$358.67 - \$202.65
20 Day Average Volume (sh)	215,940
Market Cap	\$13.0 B
YTD Price Change	3.2%
Beta	1.07
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.3%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/22/2020
Earnings ESP	0.0%
P/E TTM	35.8
P/E F1	31.4
PEG F1	4.2
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					3,387 E
2019	745 A	782 A	802 A	826 E	3,155 E
2018	696 A	733 A	725 A	748 A	2,902 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$11.38 E
2019	\$2.02 A	\$2.80 A	\$2.84 A	\$2.76 E	\$10.42 E
2018	\$1.81 A	\$2.32 A	\$2.23 A	\$2.33 A	\$8.88 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

California-based Teledyne Technologies Incorporated is an industrial conglomerate that has been operating as an independent company since 1999. It serves the markets of aerospace and defense, factory automation, air and water quality environmental monitoring, electronics design and development, oceanographic research, deepwater oil and gas exploration and production, medical imaging and pharmaceutical research.

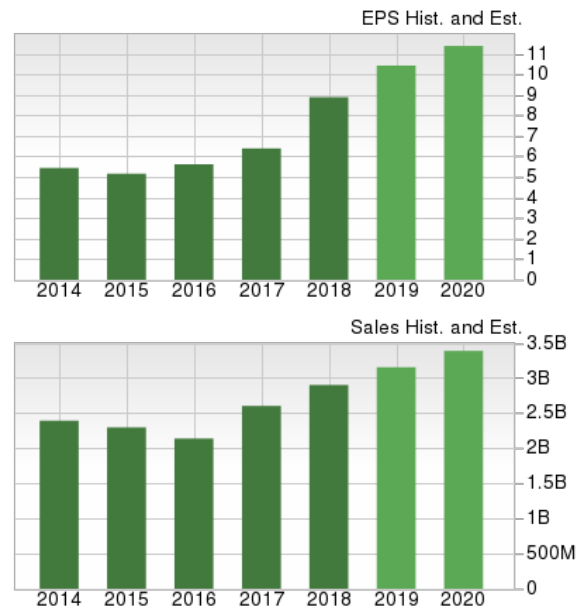
Teledyne Technologies operates through the following business segments:

Instrumentation: This business segment offers monitoring and control instruments for marine, environmental, industrial along with electronic test and measurement equipment. Within marine instrumentation, it manufactures geophysical streamer cables, hydrophones, seismic energy sources and specialty products. In 2018, this division contributed 35% to the company's total sales.

Digital Imaging: This unit produces high-performance image sensors and digital cameras to be used in industrial, scientific, medical and photogrammetry applications. Also, it builds image processing products for automatic data collection in industrial and medical applications. The segment develops high-resolution, low-dose X-ray sensors as well. In 2018, this division contributed 31% to the company's total sales.

Aerospace and Defense Electronics: This division offers sophisticated electronic components, and subsystems and communications products, including defense electronics, harsh environment interconnects, data acquisition and communications equipment for aircraft, and components and subsystems for wireless as well as satellite communications, and general aviation batteries. In 2018, this division contributed 24% to the company's total sales.

Engineered Systems: This unit offers innovative systems engineering and integration, advanced technology development and complex manufacturing solutions for defense, space, environmental and energy applications. It manufactures electrochemical energy systems and small turbine engines as well. In 2018, this division contributed 10% to the company's total sales.



Reasons To Buy:

- ▲ Increased contract wins from the Pentagon as well as other U.S. allies for its cost-effective defense solutions have been serving as a primary growth driver for Teledyne. Consequently, these contract wins bolster the company's backlog. Keeping up with its usual trend, in the third quarter, the company witnessed continuous backlog growth as orders exceeded sales for the sixth consecutive quarter. Impressively, the company ended the third quarter with the largest backlog in over four years. Such solid backlog trends indicate impressive revenue growth prospects for Teledyne in the quarters ahead.
- ▲ The macroeconomic environment in the nation has been boosting growth prospects of Teledyne given widespread geo-political uncertainty along with the current U.S. administration's inclination toward increased defense spending. Impressively, defense spending of \$750 billion for fiscal 2020, which reflects a solid 4.4% increase from the nation's existing defense budget. Such increasing spending provisions should drive order growth for defense contractors like Teledyne.
- ▲ Digital imaging market has been experiencing significant growth owing to factors like improved reliability, error free image recovery without loss, reduced requirement for physical storage space and elimination of environmental problems caused by film-based imaging. This apart, rising demand for medical imaging system in healthcare acts as a key catalyst for digital imaging market. In a bid to gain more shares of this expanding market, Teledyne acquired Micralyne — a privately-owned foundry providing Micro Electro Mechanical Systems (MEMS) devices — in September 2019. The deal provided Teledyne access to Micralyne's unique microfluidic technology for biotech applications. Following the acquisition, Teledyne increased its MEMS manufacturing capacity, which should boost its future revenues for the digital imaging business.
- ▲ During the third quarter, Teledyne made another acquisition. The company acquired the gas and flame detection business of 3M for \$230 million in cash. The deal will help the company develop enhanced sophisticated instrumentation, digital imaging products and software, aerospace and defense electronics, and engineered systems. Furthermore, the unit's buyout will help expand Teledyne's environmental instrumentation business and market share in a variety of industries, including petrochemical, power generation, oil and gas, food and beverage, mining, and waste water treatment. Evidently, during the third quarter, the company's environmental instrumentation unit witnessed 20% year-over-year sales growth, primarily on account of this buyout. The deal is expected to create economies of scale and expand customer base for the company. Such accretive acquisitions are expected to boost investors' confidence in the stock. Impressively, shares of the company have gained 78.7% in a year's time compared with the industry's 52.6% growth.

Solid backlog, strategic buyouts in digital imaging market and favorable macroeconomic condition in the United States should boost Teledyne Technologies' growth

Risks

- Teledyne faces intense competition in each of the market it operates in. In particular, the company is facing increased competition with respect to the sale of its flight data acquisition systems. The competition also includes aerospace giants, Airbus and Boeing. To make matters difficult, Teledyne is also facing competition from new competitors that recently entered this market, since a few of Teledyne's patents related to these products have expired in 2018 and will expire in upcoming years. Such competition may impede the company's growth trajectory.
 - As of Sep 30, 2019, Teledyne had \$719.3 million of total long-term debt compared with \$610.1 million at the end of December 2018. Moreover, over the past few quarters, the company witnessed a rise in its long-term debt, which, in turn, increases its vulnerability to adverse economic or industry conditions. Additionally, the company will have to dedicate a portion of its cash flow from operations to repay debt, thereby reducing the availability of cash flow to fund working capital, capital expenditures and initiatives.
 - Economic weakness is increasingly affecting China. This, in turn, has made Teledyne skeptical about its expansion in this country. Notably the company's sales to China-based customers represented 6.7% of total revenues in 2018 compared with 6.3% in 2017. China has been witnessing a slowdown in its economic growth, which is expected to continue in the near term. In particular, continued growth in many of Teledyne's businesses, including those in the Environmental and Electronic Measurement Instrumentation group and commercial aviation-related business units, could be negatively impacted if this trend proves to be long-lasting or systematic rather than being cyclical in nature.
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Last Earnings Report

Teledyne Technologies Q3 Earnings Beat, '19 View Raised

Teledyne Technologies reported third-quarter 2019 earnings of \$2.84 per share, which surpassed the Zacks Consensus Estimate of \$2.53 by 12.3%. The bottom line also improved 16.9% from the year-ago quarter's \$2.43 on solid sales and record improvement in the operating margin.

Operational Highlights

Total sales in the third quarter amounted to \$802.2 million, which exceeded the Zacks Consensus Estimate of \$781 million by 2.7%. The top line also rose 10.6% from \$725.3 million reported a year ago. Notably, all segments recorded solid year-over-year sales in the quarter

Segmental Performance

Instrumentation: Sales at this segment grew 10.4% year over year to \$282.9 million in the third quarter. Increased sales of test and measurement instrumentation, and environmental instrumentation led to the upside.

Operating income surged 45.7% year over year to \$52 million on account of higher sales and improved margins across most of its product lines.

Digital Imaging: Quarterly sales at this division increased 10.6% year over year to \$244 million. The improvement can be attributed to higher sales of X-ray detectors for life sciences applications and aerospace, defense and MEMS products along with a \$23.5-million contribution from acquisitions of the scientific imaging businesses of Roper Technologies, Inc and Micralyne Inc.

Operating income declined 2.6% year over year to \$41.2 million due to unfavorable product mix.

Aerospace and Defense Electronics: At this segment, quarterly sales of \$177.1 million rose 10.5% from the prior-year quarter, owing to increased sales of defense electronics.

Operating income grew 19.7% year over year to \$39.5 million, driven by higher sales and improved margins.

Engineered Systems: Sales at this division grew 11.5% year over year to about \$98.2 million in the third quarter on higher sales of engineered products and services, and turbine engines.

Operating income rose 10.4% to \$10.6 million on account of higher sales.

Financial Condition

Teledyne's cash totaled \$128.5 million as of Sep 29, 2019, compared with \$142.5 million at the end of 2018. Total long-term debt summed \$719.3 million compared with \$610.1 million at 2018 end.

Cash provided by operating activities was \$150.9 million for the third quarter of 2019 compared with \$141.9 million for the third quarter of 2018. In the reported quarter, capital expenditures amounted to \$25.1 million compared with \$20.9 million in the year-ago quarter. Moreover, the company generated free cash flow of \$125.8 million in the third quarter, reflecting 4% annual growth.

Guidance

Teledyne currently expects to generate GAAP earnings of \$2.71-\$2.76 per share in the fourth quarter of 2019. The Zacks Consensus Estimate for fourth-quarter GAAP earnings is pegged at \$2.58, lower than the company's bottom-line expectations.

For 2019, the company raised its earnings expectations from \$9.86-\$9.96 to \$10.37-\$10.42 per share. The Zacks Consensus Estimate for Teledyne's full-year earnings stands at \$9.98, lower than the company's expectations.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	2.73%
EPS Surprise	12.25%
Quarterly EPS	2.84
Annual EPS (TTM)	9.99

Recent News

On **Oct 25, 2019**, Teledyne announced that its SP Devices business unit launched the the ADQ7WB, a dual-channel 12-bit wideband digitizer with 6.5 GHz analog input bandwidth and 5 giga-sample per second (GSPS) sampling rate per channel. The wide instantaneous bandwidth and unprecedented dynamic performance combined with customizable real-time digital signal processing (DSP) and high data transfer rates makes it an ideal platform for satellite communication systems, radar, 5G, and more.

Valuation

Teledyne Technologies' shares are up 28.7% in the past six months period and 78.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 12% and 6.8% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 52.6% whereas the sector is up by 37.3%.

The S&P 500 index is up 10.3% in the past six months period and 34.7%, respectively, in the past year.

The stock is currently trading at 34.29X of forward 12-month earnings, which compares to 20.16X for the Zacks sub-industry, 16.9X for the Zacks sector and 19.24X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.29X and as low as 26.94X, with a 5-year median of 29.78X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$411 price target reflects 39.44X forward 12-month earnings.

Valuation Multiples - TDY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.29	20.16	16.9	19.24
	5-Year High	34.29	20.63	21.56	19.34
	5-Year Low	26.94	14.51	14.28	15.17
	5-Year Median	29.78	17.81	16.85	17.44
P/S F12M	Current	4.13	1.81	1.2	3.46
	5-Year High	4.13	1.82	1.37	3.46
	5-Year Low	3.11	1.09	0.79	2.54
	5-Year Median	3.64	1.41	1.04	3
EV/EBITDA TTM	Current	23.38	12.81	12.55	12.01
	5-Year High	23.5	13.16	13.08	12.86
	5-Year Low	19.74	8.85	7.18	8.49
	5-Year Median	22.16	10.19	9.77	10.66

As of 01/02/2019

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

Heico Corporation (HEI)	Outperform
Leidos Holdings, Inc. (LDOS)	Outperform
Bae Systems PLC (BAESY)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
FLIR Systems, Inc. (FLIR)	Neutral
L3Harris Technologies Inc (LHX)	Neutral
Raytheon Company (RTN)	Neutral
Transdigm Group Incorporated (TDG)	Neutral

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDY Outperform	X Industry	S&P 500	FLIR Neutral	HEI Outperform	TDG Neutral
VGM Score	C	-	-	C	D	B
Market Cap	13.04 B	1.55 B	23.76 B	7.08 B	16.11 B	30.39 B
# of Analysts	2	3	13	6	6	5
Dividend Yield	0.00%	0.00%	1.78%	1.29%	0.12%	0.00%
Value Score	D	-	-	D	F	D
Cash/Price	0.01	0.03	0.04	0.04	0.00	0.05
EV/EBITDA	25.83	13.56	13.97	19.06	30.60	20.49
PEG Ratio	4.16	2.22	2.02	NA	3.99	2.16
Price/Book (P/B)	5.07	3.16	3.38	3.79	9.51	NA
Price/Cash Flow (P/CF)	29.18	14.76	13.70	19.29	40.33	22.31
P/E (F1)	31.22	19.04	18.83	20.71	45.15	27.36
Price/Sales (P/S)	4.24	1.77	2.68	3.83	7.84	5.64
Earnings Yield	3.18%	5.25%	5.30%	4.83%	2.21%	3.66%
Debt/Equity	0.33	0.37	0.72	0.34	0.33	-5.71
Cash Flow (\$/share)	12.25	2.52	6.94	2.73	2.97	25.44
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	15.23%	12.34%	10.56%	10.68%	20.89%	18.71%
Proj. EPS Growth (F1/F0)	9.17%	9.43%	7.41%	10.73%	15.36%	13.52%
Curr. Cash Flow Growth	21.28%	11.25%	14.83%	13.41%	23.18%	24.18%
Hist. Cash Flow Growth (3-5 yrs)	11.35%	4.32%	9.00%	7.72%	20.26%	15.48%
Current Ratio	1.48	2.24	1.23	2.38	2.81	3.16
Debt/Capital	24.67%	29.72%	42.92%	25.65%	30.66%	NA
Net Margin	12.27%	7.81%	11.08%	14.54%	15.95%	16.06%
Return on Equity	15.52%	9.39%	17.10%	16.71%	19.15%	-58.95%
Sales/Assets	0.74	0.75	0.55	0.59	0.71	0.34
Proj. Sales Growth (F1/F0)	7.35%	4.03%	4.20%	5.06%	7.50%	16.12%
Momentum Score	D	-	-	C	B	A
Daily Price Chg	3.16%	0.73%	0.33%	1.31%	4.94%	1.33%
1 Week Price Chg	1.62%	-0.54%	0.13%	-0.53%	-1.40%	-4.62%
4 Week Price Chg	3.55%	1.40%	3.31%	-0.02%	-5.64%	0.42%
12 Week Price Chg	9.74%	3.24%	9.70%	1.26%	-4.08%	11.05%
52 Week Price Chg	78.69%	31.30%	30.28%	25.83%	64.16%	74.30%
20 Day Average Volume	215,940	99,657	1,603,615	515,650	580,592	253,452
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	3.89%	0.00%
(F1) EPS Est 12 week change	3.17%	-0.88%	-0.57%	-1.93%	4.26%	-1.90%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	16.88%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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