

Teledyne Technologies(TDY)

\$372.56 (As of 06/04/20)

Price Target (6-12 Months): **\$395.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: F

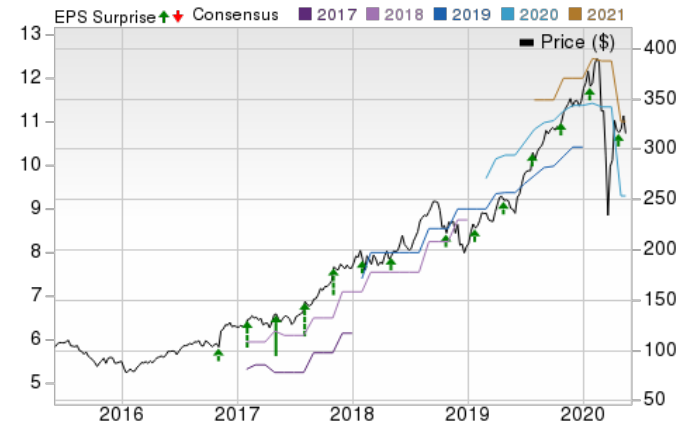
Growth: A

Momentum: A

Summary

Teledyne Technologies' shares have outperformed the industry in the past year. Solid contract wins from the Pentagon and other U.S. allies for its cost-effective defense solutions has been a primary growth driver for Teledyne. Rising spending provisions adopted by the U.S. government should drive further order growth. Apart from generating organic growth, a steady practice of making strategic acquisitions has always been a part of Teledyne's growth story. However, the ongoing pandemic may negatively impact future operations, supply chains and distribution systems and thus, increase overall expenses. An economic slowdown in Europe, North America and China might play a role of a major growth deterrent for the stock. A comparative analysis of its historical P/E TTM ratio reflects a relatively gloomy picture, which raises investor concern.

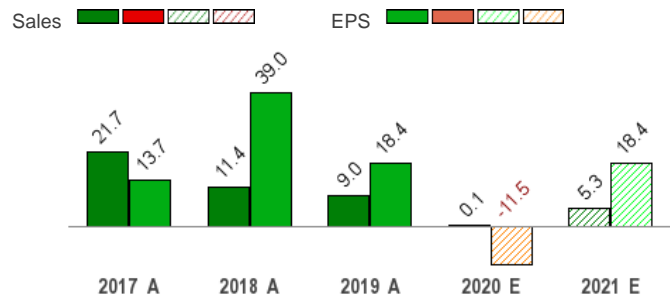
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$398.99 - \$195.34
20 Day Average Volume (sh)	220,634
Market Cap	\$13.7 B
YTD Price Change	7.5%
Beta	1.04
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 25% (190 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.6%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	34.4
P/E F1	40.1
PEG F1	NA
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,335 E
2020	785 A	757 E	814 E	813 E	3,168 E
2019	745 A	782 A	802 A	834 A	3,164 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$11.01 E
2020	\$2.28 A	\$2.02 E	\$2.40 E	\$2.75 E	\$9.30 E
2019	\$2.02 A	\$2.80 A	\$2.84 A	\$2.90 A	\$10.51 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 06/04/2020. The reports text is as of 06/05/2020.

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.

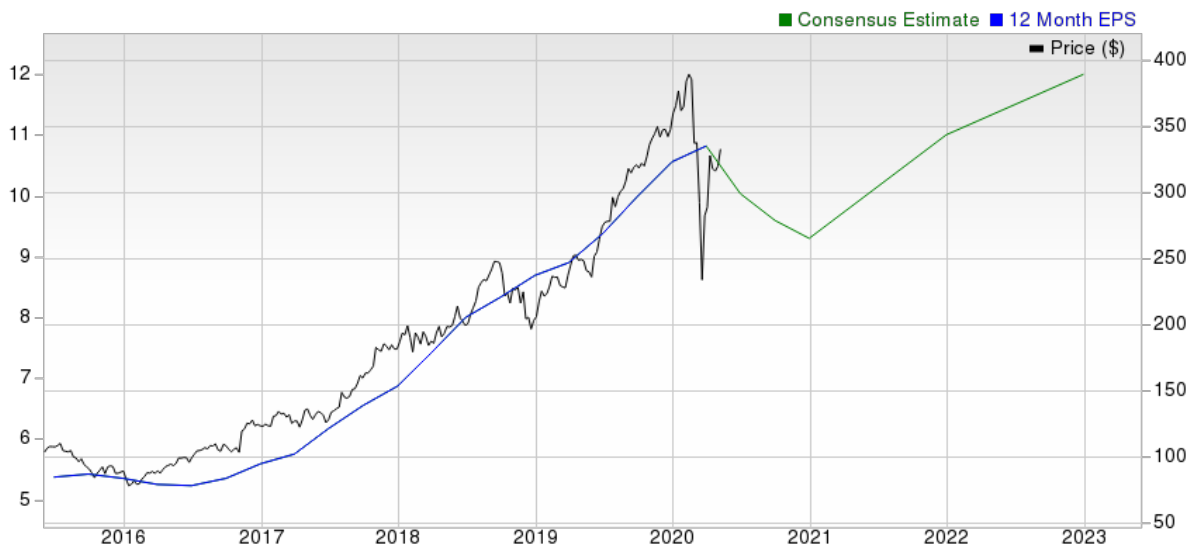
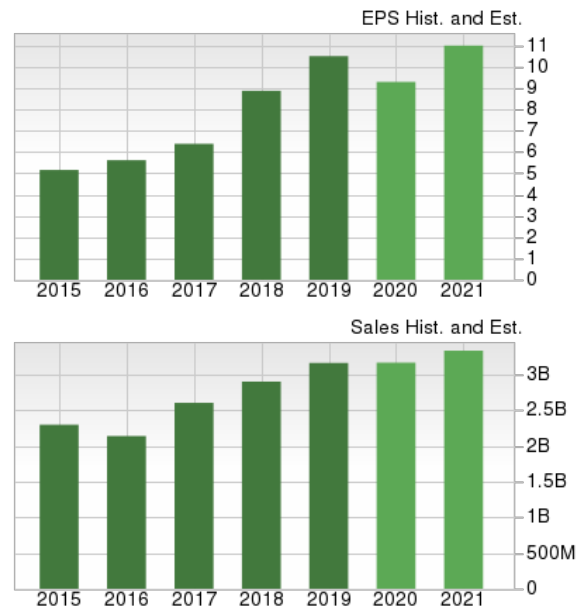
Teledyne Technologies operates through the following business segments:

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 2019, this division contributed 34.9% to the company's total adjusted 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 2019, this division contributed 31.4% to the company's total adjusted 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 2019, this division contributed 21.8% to the company's total adjusted 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 2019, this division contributed 11.9% to the company's total adjusted 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 first quarter, the company witnessed record backlog growth, which stood approximately at 1.8 billion, along with positive organic sales growth. The company's solid backlog places it well for a strong performance in the upcoming quarters.

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

▲ 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, as part of the fiscal 2021 proposed defense budget, \$740.5 billion is being kept as funding for the Pentagon, reflecting 3% growth from the fiscal 2020 budget. This increased spending provision highlights the U.S. government's decision to spend more on defense primes like Teledyne.

▲ Teledyne's cash and cash equivalent at the end of first quarter 2020 was \$231 million, up sequentially from \$200 million. On the other hand, the company's long-term debt as of Mar 31, 2020, stands at \$864 million, down sequentially from \$869 million. Although the long-term debt level lies much above the company's cash reserve, its current debt worth \$101 million as of Mar 31, 2020, remains lower than the cash reserve. This reflects the company's capability to duly meet its obligations over the short run.

Moreover, the company's current ratio as of Mar 31, 2020, is 1.8, which being more than 1, indicates that the company has sufficient capital on hand to meet its short-term obligations. Further, its debt-to-capital ratio is 0.26, lower than the industry average of 0.51 and down sequentially from 0.27. All these favorable ratio levels make us optimistic about the company's ability to meet debt obligations in the near future. Such stable liquidity position enables Teledyne to take important cash deployment decisions.

▲ Apart from generating organic growth through product sales, a steady practice of making strategic acquisitions has always been a part of Teledyne's growth story. For instance, last year, the company executed three meaningful acquisitions — the scientific imaging businesses of Roper Technologies, gas and flame detection business of 3M Company and Micralyne. Impressively, Teledyne invested \$484 million on complementary acquisitions in 2019, but nevertheless, ended the year with its lowest leverage in over five years. In January, the company acquired OakGate Technology. Such accretive acquisitions are expected to boost Teledyne's top line. Notably, management expects Micralyne and OakGate acquisitions to add \$100 million in revenues in 2020. This, in turn, must have boosted investors' confidence. Impressively, shares of the company have gained 47.9% in a year's time against the industry's 29.3% decline.

Reasons To Sell:

▼ 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.

Economic weakness in China, fluctuations in energy market and intense competition may hurt Teledyne Technologies' growth

▼ Although the COVID-19 pandemic did not have a material impact on Teledyne's operating results or business in the first quarter of 2020, its ongoing and prolonged impacts may be a cause of concern and might dent its second-quarter performance. This could be because the pandemic may have an adverse impact on the company's existing and planned operations, supply chains and distribution systems and thus, increase overall expenses. Since the pandemic is unlikely to die out anytime soon, it might turn out to be a major growth inhibitor for this stock, going ahead.

▼ Economic weakness is increasingly affecting China, which was the epicenter for the COVID-19 virus. Consequently, in recent times, China has been witnessing a slowdown in its economic growth, which is expected to continue in the near term. Apart from China, the economic slowdown in Europe and North America could also become a major growth deterrent for Teledyne Technologies.

Following rapid spread of the pandemic, air travel restrictions have served a big blow to the commercial aviation space. This in turn has the potential to hurt this stock's growth.

▼ A comparative analysis of the company's historical P/E TTM ratio reflects a relatively gloomy picture, which might be a cause for investors' concern. Evidently, the stock has a current trailing 12-month P/E ratio of 31.27. This level lies near the high end of its past year's range. Moreover, the company's P/E TTM ratio remained above the industry's P/E TTM ratio of 12 in a year.

Last Earnings Report

Teledyne Beats on Q1 Earnings, Lowers '20 EPS View

Teledyne Technologies reported first-quarter 2020 earnings of \$2.28 per share, which surpassed the Zacks Consensus Estimate of \$2.10 by 8.6%. The bottom line also improved 12.9% from the year-ago quarter's \$2.02.

The year-over-year bottom-line growth can be attributed to solid sales and an improvement in the operating income in the reported quarter.

Including one-time items, the company reported first-quarter GAAP earnings per diluted share of \$2.17, which improved 7.4% from the year-ago quarter's \$2.02.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	-0.05%
EPS Surprise	8.57%
Quarterly EPS	2.28
Annual EPS (TTM)	10.82

Operational Highlights

In the quarter under review, total sales amounted to \$784.6 million, which missed the Zacks Consensus Estimate of \$785 million by a whisker. However, the top line increased 5.3% from \$745.2 million a year ago. Except for the Aerospace and Defense Electronics segment, all other segments recorded solid year-over-year sales growth in the first quarter.

Segmental Performance

Instrumentation: Sales at this segment rose 11.2% year over year to \$285.1 million in the first quarter. Increased sales of environmental instrumentation, marine instrumentation, and test and measurement instrumentation led to the upside.

Operating income rose 27.3% year over year to \$50.8 million on account of increased sales and higher margins across most product lines.

Digital Imaging: Quarterly sales at this division increased 6.2% year over year to \$246.7 million. The improvement can be attributed to increased sales of infrared detectors for defense applications, MEMS products and X-ray detectors for life sciences applications, as well as \$8.8 million in incremental sales from the 2019 acquisitions.

Operating income grew 19.7% year over year to \$43.8 million, backed by higher sales and product mix differences.

Aerospace and Defense Electronics: At this segment, quarterly sales of \$156.3 million declined 6.2% from the prior-year quarter owing to decreased sales for aerospace electronics. The weakness in the commercial aerospace industry has affected sales of aerospace electronics in the quarter.

Operating income plunged 58.8% year over year to \$13.4 million, driven by lower sales and \$8.2 million of severance, facility consolidation and certain contract adjustment costs.

Engineered Systems: Sales at this division grew 7.6% year over year to about \$96.5 million in the first quarter. The uptick was driven by higher sales of engineered products and energy systems.

Operating income surged 78.1% to \$11.4 million on account of higher sales and improved mix of manufacturing programs.

Financial Condition

Teledyne's cash and cash equivalents totaled \$231.4 million as of Mar 29, 2020, compared with \$199.5 million at the end of 2019. Long-term debt summed \$749.1 million compared with \$750 million at 2019-end.

Cash from operations at the end of the first quarter amounted to \$76.4 million compared with \$80.1 million at the end of first-quarter 2019.

In the reported quarter, capital expenditures were \$20.2 million compared with \$21.3 million in the year-ago quarter. Moreover, the company generated free cash flow of \$56.2 million compared with \$58.8 million in the year-ago quarter.

Guidance

Teledyne expects to generate GAAP earnings per share of \$1.90-\$2.05 in the second quarter of 2020. For 2020, the company has lowered its earnings expectations from \$11.20-\$11.30 per share to \$9.30-\$10.

Currently, the Zacks Consensus Estimate for Teledyne's full-year earnings is pegged at \$9.99 per share, which is at the higher end of its updated bottom-line expectations.

Recent News

On **May 19, 2020**, Teledyne DALSA, a Teledyne Technologies company and global leader in machine vision technology, announced its first short-wave infrared (SWIR) line scan camera for machine vision. The new Linea SWIR features a cutting-edge InGaAs sensor in a compact package suitable for a variety of applications including food and packaged good inspection, recycling, mineral sorting and solar and silicon wafer inspection.

On **Apr 14, 2020**, Teledyne DALSA, a Teledyne Technologies company has introduced its latest family of LWIR cameras, the Calibir GXM series. Calibir delivers accurate, repeatable results for critical applications like detecting elevated skin temperature in fever screening.

Valuation

Teledyne Technologies' shares are up 7.6% in the year to date period, but went up 47.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 35.2% and 23.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.3% and 22.1% respectively.

The S&P 500 index is down 3.58% in the year-to-date period and up 9.5% in the past year.

The stock is currently trading at 37.2X of forward 12-month earnings, which compares to 25.5X for the Zacks sub-industry, 22.6X for the Zacks sector and 22.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.2X and as low as 14.2X, with a 5 year median of 24.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$395 price target reflects 39.4X forward 12-month earnings.

The table below shows summary valuation data for TDY

Valuation Multiples - TDY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.15	25.5	22.55	22.48
	5-Year High	37.15	25.5	22.55	22.48
	5-Year Low	14.22	12.99	14.17	15.23
	5-Year Median	24.2	17.12	17.17	17.49
P/S F12M	Current	4.22	0.93	1.23	3.5
	5-Year High	4.25	1.29	1.49	3.5
	5-Year Low	1.18	0.79	0.92	2.53
	5-Year Median	2.32	1.03	1.18	3.02
EV/EBITDA TTM	Current	23.6	7.58	12.32	11.51
	5-Year High	25.35	12.02	14.98	12.86
	5-Year Low	9.25	6.17	7.39	8.26
	5-Year Median	16.55	8.72	10.46	10.81

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CAE Inc (CAE)	Neutral	2
CurtissWright Corporation (CW)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	4
L3Harris Technologies Inc (LHX)	Neutral	3
Triumph Group, Inc. (TGI)	Neutral	3
Hexcel Corporation (HXL)	Underperform	5
Moog Inc. (MOG.A)	Underperform	5
Transdigm Group Incorporated (TDG)	Underperform	5

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDY	X Industry	S&P 500	MOG.A	TDG	TGI
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	5	5	3
VGM Score	B	-	-	A	D	D
Market Cap	13.66 B	1.36 B	22.58 B	2.04 B	26.05 B	507.04 M
# of Analysts	1	3	14	2	5	6
Dividend Yield	0.00%	0.00%	1.87%	1.60%	0.00%	1.64%
Value Score	F	-	-	A	F	C
Cash/Price	0.02	0.12	0.06	0.07	0.12	1.25
EV/EBITDA	23.56	8.42	12.93	8.40	18.65	7.59
PEG Ratio	NA	6.27	3.06	NA	7.73	9.20
Price/Book (P/B)	4.96	2.31	3.09	1.63	NA	NA
Price/Cash Flow (P/CF)	26.85	8.16	12.17	8.18	18.94	1.82
P/E (F1)	40.94	25.72	22.17	14.47	39.04	23.93
Price/Sales (P/S)	4.26	1.10	2.41	0.67	4.26	0.17
Earnings Yield	2.50%	2.91%	4.27%	6.91%	2.56%	4.20%
Debt/Equity	0.31	0.37	0.76	0.88	-4.26	-2.30
Cash Flow (\$/share)	13.88	2.02	7.01	7.64	25.44	5.37
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	18.64%	10.59%	10.87%	9.05%	19.10%	-20.33%
Proj. EPS Growth (F1/F0)	-11.51%	-30.62%	-10.79%	-15.46%	-32.46%	-84.93%
Curr. Cash Flow Growth	14.47%	13.75%	5.48%	4.47%	24.18%	28.84%
Hist. Cash Flow Growth (3-5 yrs)	11.00%	4.37%	8.55%	-1.38%	15.48%	-6.18%
Current Ratio	1.80	2.59	1.29	2.36	3.14	1.58
Debt/Capital	23.89%	33.12%	44.75%	46.76%	NA	NA
Net Margin	12.78%	5.32%	10.59%	6.38%	15.22%	-0.97%
Return on Equity	15.49%	9.58%	16.26%	14.68%	-37.53%	-20.55%
Sales/Assets	0.72	0.73	0.55	0.94	0.36	1.04
Proj. Sales Growth (F1/F0)	0.13%	0.00%	-2.61%	-3.27%	-7.13%	-29.46%
Momentum Score	A	-	-	A	D	F
Daily Price Chg	2.01%	0.37%	-0.08%	1.31%	2.52%	3.39%
1 Week Price Chg	10.59%	4.95%	4.60%	10.57%	11.56%	34.95%
4 Week Price Chg	16.34%	26.37%	12.07%	35.96%	48.43%	80.26%
12 Week Price Chg	35.85%	18.48%	25.17%	26.36%	18.36%	10.90%
52 Week Price Chg	47.88%	-19.34%	0.34%	-28.00%	2.82%	-50.15%
20 Day Average Volume	220,634	229,009	2,537,324	229,009	753,913	3,318,405
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-42.08%
(F1) EPS Est 4 week change	0.00%	-1.96%	-0.08%	0.00%	-7.67%	-48.64%
(F1) EPS Est 12 week change	-15.87%	-27.81%	-16.19%	-22.16%	-41.79%	-84.39%
(Q1) EPS Est Mthly Chg	0.00%	-5.62%	0.00%	0.00%	-48.55%	-385.00%

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	F
Growth Score	A
Momentum Score	A
VGM Score	B

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.

Disclosures

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