

Teledyne Technologies(TDY)

\$331.02 (As of 08/11/20)

Price Target (6-12 Months): **\$351.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

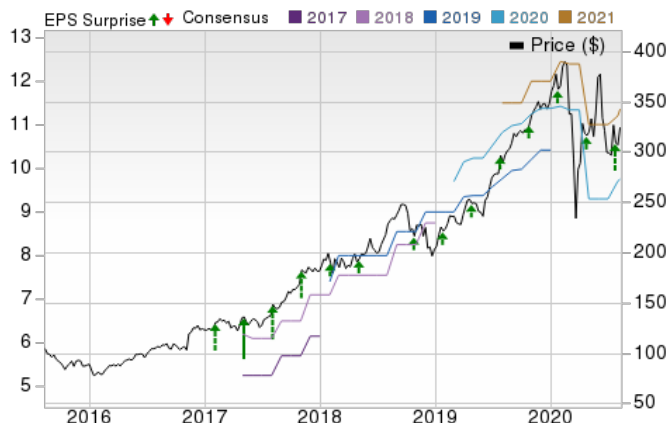
Growth: C

Momentum: C

Summary

Teledyne Technologies ended second-quarter 2020 on a mixed note. While its earnings surpassed the Zacks Consensus Estimate, revenues failed to meet the mark. The company's 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 have been the primary growth driver for Teledyne. It has also gained significantly from its steady practice of making strategic acquisitions. However, continued weakness in the commercial aerospace industry due to the COVID-19 pandemic has been impacting the company's operational performance. As the pandemic rages on, these unfavorable trends are expected to weigh on the stock for the time being. A comparative analysis of its historical P/E TTM ratio reflects a relatively gloomy picture, which raises concern.

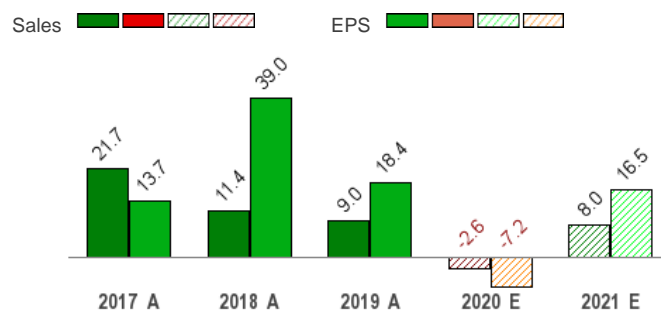
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$398.99 - \$195.34
20 Day Average Volume (sh)	219,673
Market Cap	\$12.2 B
YTD Price Change	-4.5%
Beta	1.00
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 19% (205 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.9%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	4.5%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	31.7
P/E F1	34.0
PEG F1	NA
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,331 E
2020	785 A	743 A	753 E	802 E	3,083 E
2019	745 A	782 A	802 A	834 A	3,164 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$11.36 E
2020	\$2.28 A	\$2.43 A	\$2.40 E	\$2.70 E	\$9.75 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 08/11/2020. The reports text is as of 08/12/2020.

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.

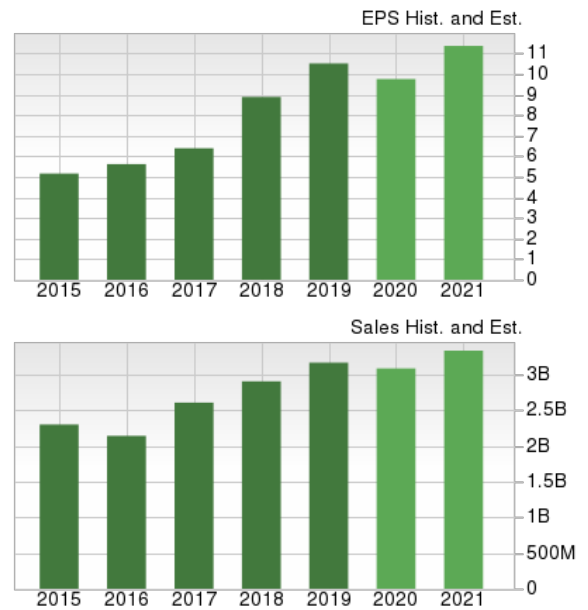
Teledyne Technologies operates through the following business segments:

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 second 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 equivalents at the end of second-quarter 2020 was \$383 million, up sequentially from \$231 million. The company's long-term debt as of Jun 30, 2020 was \$863 million, down sequentially from \$864 million. Although the long-term debt level lies much above the company's cash reserve, its current debt is \$101 million as of Jun 30, 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 Jun 30, 2020, is 2, up from 1.8 as of Mar 31, 2020. The fact that it is 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 0.25, lower than the industry average of 0.34 and down sequentially from 0.26. Also, its interest coverage ratio of 26.7 improved sequentially from 25.5. 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. Evidently, during the second quarter, its environmental sales increased 7.9% as a result of its acquisition of the Gas and Flame Detection business. Going ahead, 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 11.5% in a year's time against the industry's 36.1% 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

▼ The continued weakness in the commercial aerospace industry, due to COVID-19, has affected sales of aerospace electronics. This in turn impacted the company's Aerospace and Defense Electronics segment during the second quarter. Going ahead, disruptions due to production delay of Boeing's 737 Max aircraft and continued weakness in the commercial aerospace industry, as the pandemic is still going on, are expected to affect Teledyne's aerospace electronics businesses.

Further, the company's digital imaging sales were slightly lower than projected, as temporary declines in surgery and cancer radiotherapy were witnessed due to deferred patient treatments as well as fewer new OEM equipment installations in hospitals, courtesy of the COVID-19 impact. Moreover, 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.

▼ Unable to withstand the adverse effects of the pandemic, OneWeb Global Limited and its subsidiaries declared bankruptcy at the end of March 2020. Although Teledyne's customer, Airbus OneWeb Satellites (AOS), which is a joint venture between Airbus and OneWeb Global, has not yet declared any bankruptcy, in the worst case scenario, Teledyne might feel the heat. As a result of this, the company has potential exposure of approximately \$40.0 million related to certain receivables, inventories and additional AOS-related expenses. In case of adversities, Teledyne might incur notable losses if AOS suffers financially.

▼ 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 31.68. This level lies near the high end of its past year's range. Moreover, the company's P/E TTM ratio remained much above the industry's P/E TTM ratio of 16.48 in a year.

Last Earnings Report

Teledyne Q2 Earnings Top Estimates, Sales Decline Y/Y

Teledyne Technologies reported second-quarter 2020 adjusted earnings of \$2.43 per share, which surpassed the Zacks Consensus Estimate of \$2.01 by 20.9%.

Including one-time items, the company reported second-quarter GAAP earnings per share of \$2.48, which declined 11.4% from the year-ago quarter's \$2.80.

The year-over-year bottom-line decline can be attributed to decrease in sales during the reported quarter. However, the quarterly bottom line exceeded the earlier announced GAAP earnings guidance range of \$1.90-\$2.05.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	-0.05%
EPS Surprise	20.90%
Quarterly EPS	2.43
Annual EPS (TTM)	10.45

Operational Highlights

In the quarter under review, total sales amounted to \$743.3 million, which missed the Zacks Consensus Estimate of \$743.7 million by a whisker. The top line declined 4.9% from \$782 million in the year-ago quarter. Except for the Engineered Systems segment, all other segments recorded year-over-year sales decline in the second quarter.

Segmental Performance

Instrumentation: Sales at this segment slipped 0.4% year over year to \$263.1 million in the second quarter, owing to lower sales from marine instrumentation and test and measurement instrumentation.

Operating income fell 1% year over year to \$48.5 million on account of increased severance and facility consolidation costs.

Digital Imaging: Quarterly sales at this division declined 4.3% yearover year to \$237.6 million. The deterioration can be attributed to lower sales of X-ray products for dental and medical applications and geospatial imaging products.

Operating income decreased 9.3% year over year to \$46.8 million on account of lower sales.

Aerospace and Defense Electronics: At this segment, quarterly sales of \$143.1 million declined 18.7% from the prior-year quarter owing to decreased sales for aerospace electronics as well as defense and space electronics.

Operating income plunged 54.7% year over year to \$17.5 million due to lower sales and higher severance and facility consolidation costs.

Engineered Systems: Sales at this division grew 6.4% year over year to about \$99.5 million in the second quarter. The uptick was driven by higher sales of engineered products and turbine engines.

Operating income rose 20% to \$10.8 million on account of higher sales and improved mix of manufacturing programs.

Financial Condition

Teledyne's cash and cash equivalents totaled \$382.8 million as of Jun 28, 2020, compared with \$199.5 million at the end of 2019. Long-term debt was \$750.8 million compared with \$750 million at 2019-end.

Cash from operations at the end of the second quarter amounted to \$155.8 million compared with \$83.2 million at the end of second-quarter 2019.

In the reported quarter, capital expenditures were \$16.6 million compared with \$18.1 million in the year-ago quarter. Moreover, the company generated free cash flow of \$139.2 million compared with \$65.1 million in the year-ago quarter.

Guidance

Teledyne expects to generate GAAP earnings per share in the range of \$2.25-\$2.45 in the third quarter of 2020. Currently, the Zacks Consensus Estimate for Teledyne's third-quarter earnings is pegged at \$2.43 per share, which lies near the higher end of its bottom-line expectations.

For 2020, the company has raised the lower end of its earlier expected earnings guidance range. Notably, Teledyne currently expects to generate earnings in the range of \$9.45-\$10 compared with the earlier band of \$9.30-\$10.

Currently, the Zacks Consensus Estimate for Teledyne's full-year earnings is pegged at \$9.60 per share, which lies below the midpoint of its updated bottom-line expectations.

Recent News

On **July 13, 2020**, Teledyne Technologies announced that its subsidiary, Teledyne Brown Engineering, Inc., was awarded a \$6 million contract from Northrop Grumman Corporation to manufacture the first production unit of the Surface-to-Surface Missile Module (SSMM) for the U.S. Navy's Littoral Combat Ship (LCS).

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.

Valuation

Teledyne Technologies' shares are down 4.5% in the year to date period and up 11.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 39.7% and 31.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 36.1% while the sector is down 31.4%.

The S&P 500 index is up 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 30.8X of forward 12-month earnings, which compares to 22.6X for the Zacks sub-industry, 21.5X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.4X and as low as 14.2X, with a 5 year median of 24.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$351 price target reflects 32.7X 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	30.83	22.61	21.49	22.8
	5-Year High	37.38	23.54	21.49	22.8
	5-Year Low	14.22	12.99	14.17	15.25
	5-Year Median	24.71	17.26	17.29	17.58
P/S F12M	Current	3.77	1.46	1.72	3.67
	5-Year High	4.31	1.46	1.72	3.67
	5-Year Low	1.18	0.79	0.92	2.53
	5-Year Median	2.38	1.05	1.18	3.05
EV/EBITDA TTM	Current	21.75	9.58	16.57	12.66
	5-Year High	25.35	12.18	16.57	12.84
	5-Year Low	9.25	5.99	7.38	8.24
	5-Year Median	16.73	8.85	10.59	10.9

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 253)



Top Peers

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDY	X Industry	S&P 500	MOG.A	TDG	TGI
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	C	-	-	A	C	F
Market Cap	12.20 B	1.31 B	23.61 B	2.04 B	26.57 B	439.58 M
# of Analysts	1	4	14	2	4	6
Dividend Yield	0.00%	0.00%	1.69%	0.00%	0.00%	1.42%
Value Score	D	-	-	A	D	D
Cash/Price	0.03	0.15	0.07	0.05	0.18	0.08
EV/EBITDA	20.91	8.97	13.32	8.17	18.71	8.19
PEG Ratio	NA	7.36	2.95	NA	9.40	NA
Price/Book (P/B)	4.24	2.09	3.22	1.64	NA	NA
Price/Cash Flow (P/CF)	23.86	8.14	12.79	8.21	19.27	1.58
P/E (F1)	33.95	27.63	22.02	13.67	37.86	NA
Price/Sales (P/S)	3.86	1.35	2.57	0.69	4.86	0.16
Earnings Yield	2.95%	2.79%	4.29%	7.32%	2.64%	-2.95%
Debt/Equity	0.30	0.39	0.77	0.79	-4.64	-1.49
Cash Flow (\$/share)	13.88	2.26	6.94	7.64	25.44	5.37
Growth Score	C	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	19.33%	10.59%	10.41%	9.93%	17.48%	-21.37%
Proj. EPS Growth (F1/F0)	-7.23%	-17.58%	-6.51%	-10.18%	-29.13%	-109.23%
Curr. Cash Flow Growth	14.47%	12.73%	5.22%	4.47%	24.18%	28.84%
Hist. Cash Flow Growth (3-5 yrs)	11.00%	5.32%	8.55%	-1.38%	15.48%	-6.18%
Current Ratio	1.97	2.71	1.34	2.31	4.10	1.49
Debt/Capital	23.05%	33.12%	44.59%	44.22%	NA	NA
Net Margin	12.59%	4.46%	10.13%	4.46%	14.24%	-12.14%
Return on Equity	14.45%	8.92%	14.59%	13.67%	-25.74%	-12.76%
Sales/Assets	0.69	0.73	0.51	0.90	0.32	1.00
Proj. Sales Growth (F1/F0)	-2.56%	0.00%	-1.45%	-2.50%	-7.61%	-35.46%
Momentum Score	C	-	-	D	B	F
Daily Price Chg	0.53%	0.52%	-0.17%	1.97%	1.59%	5.61%
1 Week Price Chg	5.66%	6.88%	2.30%	10.39%	10.15%	10.03%
4 Week Price Chg	9.17%	9.60%	6.41%	28.35%	15.99%	2.42%
12 Week Price Chg	0.97%	17.89%	15.42%	42.72%	35.72%	61.64%
52 Week Price Chg	11.54%	-17.53%	2.88%	-19.29%	-10.58%	-63.19%
20 Day Average Volume	219,673	148,367	2,007,486	146,680	398,969	1,592,657
(F1) EPS Est 1 week change	0.20%	0.00%	0.00%	0.00%	0.00%	-4,266.67%
(F1) EPS Est 4 week change	4.46%	1.75%	1.84%	6.25%	6.01%	-161.23%
(F1) EPS Est 12 week change	4.46%	0.00%	2.40%	6.25%	6.01%	-131.45%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.72%	34.62%	34.93%	-318.82%

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	C
Momentum Score	C
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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