

Teledyne Technologies(TDY)

\$394.06 (As of 02/19/20)

Price Target (6-12 Months): **\$418.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

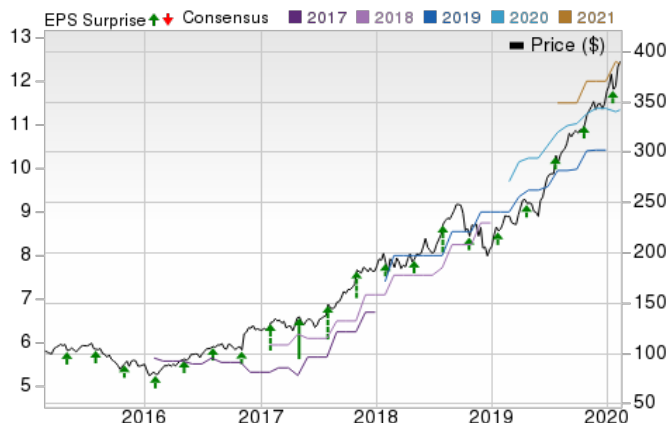
Growth: B

Momentum: F

Summary

Teledyne Technologies ended 2019 on a solid note, with fourth-quarter top and bottom lines exceeding the respective Zacks Consensus Estimate. The company's shares have outperformed the industry in the past year. Solid backlog trends indicate impressive revenue growth prospects for Teledyne. Increasing spending provisions adopted by the U.S. government should drive order growth for defense contractors like Teledyne. Continued strength in microelectromechanical systems market is expected to boost further growth. However, economic weakness is increasingly affecting China, which has made the company skeptical about its expansion in this country. A comparative analysis of the company's historical P/E TTM ratio reflects a relatively gloomy picture, which raises investors' concern. Moreover, the company's debt level is increasing.

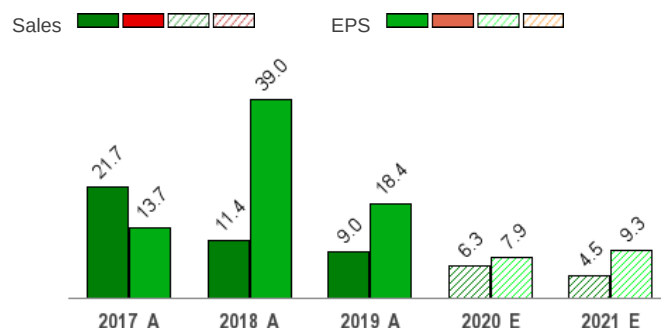
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$398.99 - \$224.84
20 Day Average Volume (sh)	192,562
Market Cap	\$14.4 B
YTD Price Change	13.7%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 16% (215 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	37.3
P/E F1	34.8
PEG F1	NA
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,514 E
2020	799 E	830 E	855 E	877 E	3,362 E
2019	745 A	782 A	802 A	834 A	3,164 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$12.40 E
2020	\$2.32 E	\$2.76 E	\$2.96 E	\$3.24 E	\$11.34 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 02/19/2020. The reports text is as of 02/20/2020.

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.

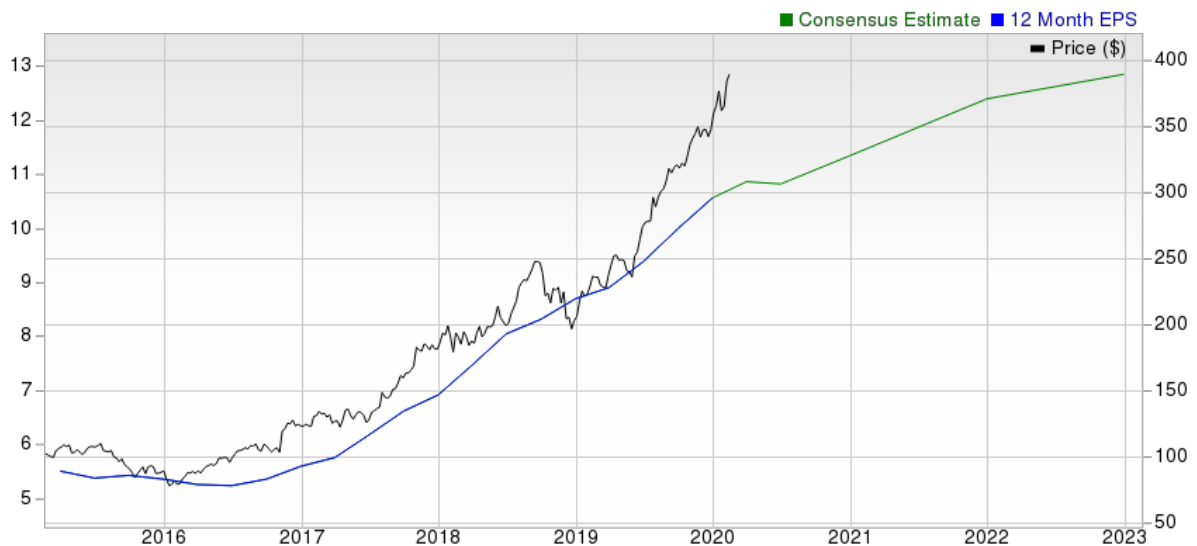
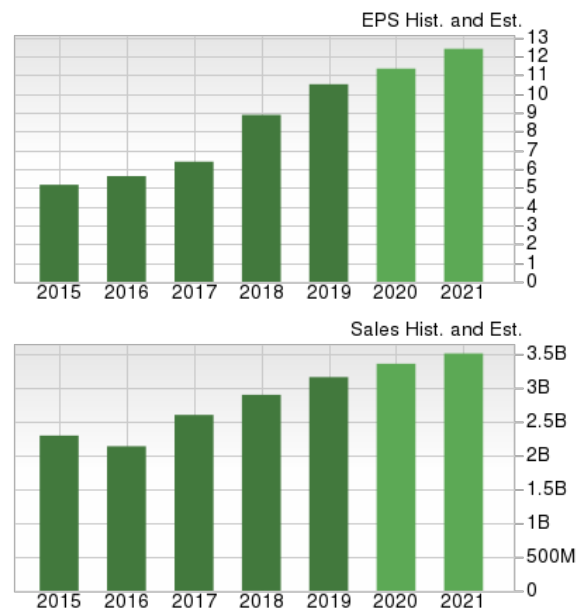
Teledyne Technologies operates through the following business segments:

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 fourth quarter, the company witnessed record backlog growth as orders exceeded sales for the seventh consecutive quarter. Notably, for the second consecutive quarter, Teledyne Technologies achieved all-time record sales, earnings per share and free cash flow. The company's solid backlog places it well for a solid performance in the upcoming quarters.
- ▲ 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. Looking ahead, Teledyne's management projects continued strength in certain high-growth markets like microelectromechanical systems (MEMS) and a modest recovery in certain commercial machine vision markets such as the semiconductor industry. Considering such growth trends, Teledyne acquired Micralyne in September 2019 to gain access to Micralyne's unique microfluidic technology for biotech applications. This acquisition is expected to boost future revenues of the digital imaging business.
- ▲ 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. Recently, in January 2020, the company acquired OakGate Technology. Such accretive acquisitions are expected to boost Teledyne's top-line growth. Notably, management expects the scientific camera, gas and flame detection, Micralyne and OakGate acquisition to add \$100 million in revenues in 2020. This in turn must have boosted investors' confidence. Impressively, shares of the company have gained 68.5% in a year's time compared with the industry's 42.6% growth.

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

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.
- ▼ As of Dec 29, 2019, Teledyne had \$750 million of total long-term debt compared with \$610.1 million at the end of December 2018. In fact 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.
- ▼ 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 35.08. This level lies near the high end of its past one year range. Moreover, the company's P/E TTM ratio remained above the industry's P/E TTM ratio of 24.97 in a year.

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

Last Earnings Report

Teledyne Technologies Q4 Earnings Beat on Higher Sales

Teledyne Technologies reported fourth-quarter 2019 adjusted earnings of \$2.90 per share, which surpassed the Zacks Consensus Estimate of \$2.76 by 5.1%. The bottom-line figure came above the guided range of \$2.71-\$2.76 for the reported quarter.

Including one-time items, the company reported GAAP earnings of \$3.06 per share, which improved 24.9% from the year-ago quarter's \$2.45 driven by solid sales growth and improvement in operating margin.

The company's 2019 adjusted earnings came in at \$10 compared with \$8.51 in 2018. The full-year figure missed the Zacks Consensus Estimate of \$10.42.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	1.01%
EPS Surprise	5.07%
Quarterly EPS	2.90
Annual EPS (TTM)	10.56

Operational Highlights

Total sales in the fourth quarter amounted to \$834.2 million, which exceeded the Zacks Consensus Estimate of \$826 million by 1%. The top line also rose 11.5% from \$748.4 million reported a year ago. Notably, all segments, except Engineered Systems recorded solid year-over-year sales in the quarter.

For the full year, Teledyne reported sales of \$3.16 billion, up 9% from \$2,901.8 million in the year-ago period. The full-year top-line figure came in line with the Zacks Consensus Estimate.

Segmental Performance

Instrumentation: Sales at this segment grew 14.5% year over year to \$301.6 million in the fourth quarter. Increased sales of environmental instrumentation and marine instrumentation led to the upside.

Operating income surged 38.4% year over year to \$59.5 million on account of higher sales and improved margins across most of its product lines.

Digital Imaging: Quarterly sales at this division increased 20.1% year over year to \$268.1 million. The improvement can be attributed to higher sales of X-ray detectors for life sciences applications and space, defense, geospatial and MEMS products. Also, sales from the acquisitions of the scientific imaging businesses of Roper Technologies and Micralyne contributed to this segment's top-line growth.

Operating income improved 29.8% year over year to \$47.1 million due to higher sales and product mix differences.

Aerospace and Defense Electronics: At this segment, quarterly sales of \$170.4 million rose 2.7% from the prior-year quarter, owing to increased sales of defense electronics.

Operating income dropped 7.3% year over year to \$32.8 million on account of product mix differences.

Engineered Systems: Sales at this division slipped 1.7% year over year to about \$94.1 million in the fourth quarter on lower sales of engineered products and energy systems.

Operating income declined 1.9% to \$10.5 million on account of lower sales.

Financial Condition

Teledyne's cash totaled \$199.5 million as of Dec 29, 2019, compared with \$142.5 million at the end of 2018. Total long-term debt was \$750 million compared with \$610.1 million at 2018 end.

Cash provided by operating activities was \$167.9 million for the fourth quarter of 2019 compared with \$125.5 million for the fourth quarter of 2018.

In the reported quarter, capital expenditures amounted to \$23.9 million compared with \$18.7 million in the year-ago quarter. Moreover, the company generated free cash flow of \$144 million in the fourth quarter, reflecting 34.8% year-over-year growth.

Guidance

Teledyne expects to generate GAAP earnings of \$2.25-\$2.35 per share in the first quarter of 2020.

For 2020, the company expects earnings of \$11.20-\$11.30 per share. The Zacks Consensus Estimate for Teledyne's full-year earnings stands at \$11.38, higher than the company's expectations.

Valuation

Teledyne Technologies' shares are up 28.9% in the past six months period and 68.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 12.4% and 8.5% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 27.1% whereas the sector is up by 13.4%.

The S&P 500 index is up 17.4% in the past six months period and 23.9% in the past year.

The stock is currently trading at 34.31X of forward 12-month earnings, which compares to 21.20X for the Zacks sub-industry, 21.91X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.31X and as low as 14.22X, with a 5-year median of 23.62X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$418 price target reflects 36.38X 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	34.31	21.2	21.91	19.39
	5-Year High	34.31	21.2	21.91	19.39
	5-Year Low	14.22	14.51	14.26	15.18
	5-Year Median	23.62	18.01	16.87	17.47
P/S F12M	Current	4.25	1.95	1.4	3.59
	5-Year High	4.25	1.95	1.4	3.59
	5-Year Low	1.18	1.09	0.8	2.54
	5-Year Median	2.04	1.47	1.09	3
P/B TTM	Current	5.29	5.38	9.44	4.68
	5-Year High	5.29	5.46	13.92	4.68
	5-Year Low	2.02	2.82	5.26	2.85
	5-Year Median	3.01	3.87	9.16	3.62

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (215 out of 255)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
CAE Inc (CAE)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
L3Harris Technologies Inc (LHX)	Neutral
Moog Inc. (MOG.A)	Neutral
Transdigm Group Incorporated (TDG)	Neutral
Hexcel Corporation (HXL)	Underperform
Triumph Group, Inc. (TGI)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDY Neutral	X Industry	S&P 500	MOG.A Neutral	TDG Neutral	TGI Underperform
VGM Score	D	-	-	A	C	C
Market Cap	14.37 B	1.50 B	24.59 B	3.09 B	34.43 B	1.25 B
# of Analysts	2	3	13	2	5	6
Dividend Yield	0.00%	0.00%	1.78%	1.09%	0.00%	0.66%
Value Score	D	-	-	B	D	D
Cash/Price	0.01	0.04	0.04	0.04	0.12	0.04
EV/EBITDA	28.03	14.71	14.21	11.01	21.75	-21.47
PEG Ratio	NA	2.83	2.09	NA	2.42	2.06
Price/Book (P/B)	5.29	3.34	3.28	2.48	NA	NA
Price/Cash Flow (P/CF)	32.16	15.70	13.59	11.96	25.21	5.59
P/E (F1)	34.73	24.71	19.17	16.47	30.66	9.91
Price/Sales (P/S)	4.54	1.87	2.68	1.04	5.87	0.41
Earnings Yield	2.88%	4.05%	5.18%	6.07%	3.26%	10.08%
Debt/Equity	0.28	0.33	0.70	0.73	-4.18	-2.63
Cash Flow (\$/share)	12.25	2.53	6.93	7.64	25.44	4.33
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	17.08%	14.73%	10.84%	7.43%	18.97%	-20.17%
Proj. EPS Growth (F1/F0)	7.90%	9.40%	7.00%	8.61%	14.48%	-1.94%
Curr. Cash Flow Growth	21.28%	9.60%	7.81%	4.47%	24.18%	-69.39%
Hist. Cash Flow Growth (3-5 yrs)	11.35%	4.09%	8.25%	-1.38%	15.48%	-10.75%
Current Ratio	1.72	2.34	1.24	2.34	1.99	1.24
Debt/Capital	21.65%	29.72%	42.37%	42.24%	NA	NA
Net Margin	12.72%	7.70%	11.69%	6.23%	13.87%	-4.96%
Return on Equity	15.67%	9.39%	16.86%	13.94%	-45.77%	-26.30%
Sales/Assets	0.73	0.76	0.55	0.95	0.34	1.11
Proj. Sales Growth (F1/F0)	6.26%	0.64%	4.05%	5.22%	16.60%	-14.67%
Momentum Score	F	-	-	A	C	C
Daily Price Chg	1.40%	0.00%	0.38%	-0.80%	-0.03%	0.12%
1 Week Price Chg	1.36%	0.00%	1.65%	0.75%	1.92%	3.26%
4 Week Price Chg	4.98%	-0.41%	0.86%	0.43%	-0.43%	10.55%
12 Week Price Chg	13.73%	3.70%	4.56%	5.37%	13.03%	-13.17%
52 Week Price Chg	67.09%	13.31%	14.15%	-4.39%	47.01%	5.22%
20 Day Average Volume	192,562	135,392	1,989,235	135,392	349,371	409,865
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.90%
(F1) EPS Est 4 week change	-0.31%	0.00%	-0.03%	0.91%	0.25%	-4.02%
(F1) EPS Est 12 week change	-0.31%	-0.40%	-0.21%	0.00%	0.25%	-4.02%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.40%	-3.65%	-5.73%	-19.00%

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	F
VGM Score	D

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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